

***HURON SCHOOL DISTRICT NO. 2-2
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2017***

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

School Board
Huron School District No. 2-2
Huron, 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 the Huron School District No. 2-2, South Dakota, as of and for the year then ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 23, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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. 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.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this 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.

A handwritten signature in cursive script that reads "CLO Prof LLC".

Huron, South Dakota
February 23, 2018



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

**School Board
Huron School District No. 2-2
Huron, South Dakota**

Report on Compliance for Each Major Federal Program

We have audited Huron School District No. 2-2's, Beadle County, South Dakota compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Huron School District's major federal programs for the year ended June 30, 2017. Huron School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above.

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purposes. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.



Huron, South Dakota
February 23, 2018

HURON SCHOOL DISTRICT NO. 2-2
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

Material weakness(es) identified: yes X no

Significant deficiencies identified
that are not considered to be
material weakness(es)? yes X none reported

Noncompliance material to financial
statements noted? yes X no

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiencies identified
that are not considered to be
material weakness(es)? yes X none reported

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

Any audit findings disclosed that are required
to be reported in accordance with
2 CFR 200.156(a). yes X no

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish
between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X Yes No

Section II - Financial Statement Findings

There are no findings which are required to be reported in accordance with Government Auditing Standards.

Section III - Federal Award Findings and Questioned Costs

There are no finding or questioned costs relating to federal award programs which are required to be reported in accordance with 2 CFR 200.156(a).



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INDEPENDENT AUDITOR'S REPORT

**School Board
Huron School District No. 2-2
Huron, South Dakota**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Huron School District No. 2-2, Huron, South Dakota, as of June 30, 2017 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Huron School District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 Huron School District No. 2-2 as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Budgetary Comparison Schedules, the Schedule of Funding Progress, the Schedule of Proportionate Share of the Net Pension Liability (Asset), and the Schedule of the School District's Contributions listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Huron School District's financial statements. The Schedule of Expenditures of Federal Awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 23, 2018 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions or laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School District's internal control over financial reporting and compliance.



Huron, South Dakota
February 23, 2018

**HURON SCHOOL DISTRICT NO. 2-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017**

This section of Huron School District No. 2-2's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended on June 30, 2017. Please read it in conjunction with the School's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the School's revenues of \$28,916,556 generated from taxes and other revenues of the governmental and business-type programs were \$145,730 less than the \$29,062,286 in governmental and business-type program expenditures.
- The total cost of the School's programs increased 10% over the prior year.
- The first two statements are government-wide financial statements that provide both long-term and short-term information about the School'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 fund 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. The proprietary funds operated by the school are the Food Service Operation (Fund 51), and Concessions and Drivers Education (Fund 53).
 - Fiduciary fund statements provide information about the financial relationships 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 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.

**HURON SCHOOL DISTRICT NO. 2-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017**

Figure A-1

Major Features of Huron School's Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School government (except fiduciary funds)	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, preschool, PASS, and the drivers' education program	Instances in which the School is the trustee or agent for someone else's resources.
Required Financial Statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • 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

**HURON SCHOOL DISTRICT NO. 2-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017**

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 they have changed. Net position 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 nonfinancial 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, and federal grants finance most of these activities.
- **Business-type Activities** - The school charges a fee to students to help cover the costs of providing breakfast and hot lunch services to all students. The Food Service Fund and the Enterprise Funds (Drivers Ed, and Concessions) are the only business-type activities of the School.

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.

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 you 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.

**HURON SCHOOL DISTRICT NO. 2-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017**

- **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, Drivers Education, and Concessions Enterprise funds 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 net position and a statement of changes in 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:

Table A-1
Huron School District No. 2-2
Statement of Net Position

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>		<i>Percentage Change 2016-2017</i>
	<i>2016</i>	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>	<i>2017</i>	
Current and Other Assets	\$ 18,479,006	\$ 13,164,811	\$ 421,424	\$ 540,644	\$ 18,900,430	\$ 13,705,455	-27.49%
Capital Assets (Net of Depreciation)	34,191,569	35,243,890	366,513	317,950	34,558,082	35,561,840	2.90%
Total Assets	52,670,575	48,408,701	787,937	858,594	53,458,512	49,267,295	-7.84%
Pension Related Deferred Outflows	5,455,067	5,750,041	--	--	5,455,067	5,750,041	5.41%
Total Deferred Outflows of Resources	5,455,067	5,750,041	--	--	5,455,067	5,750,041	5.41%
Long-Term Liabilities Outstanding	31,509,288	32,189,118	8,456	8,767	31,517,744	32,197,885	2.16%
Other Liabilities	2,710,714	2,506,216	59,953	66,735	2,770,667	2,572,951	-7.14%
Total Liabilities	34,220,002	34,695,334	68,409	75,502	34,288,411	34,770,836	1.41%
Taxes Levied for Future Period	5,211,661	5,156,646	--	--	5,211,661	5,156,646	-1.06%
Pension Related Deferred Inflows	4,247,090	69,167	--	--	4,247,090	69,167	-98.37%
Unearned Revenues	--	--	13,949	--	13,949	--	-100.00%
Total Deferred Inflows of Resources	9,458,751	5,225,813	13,949	--	9,472,700	5,225,813	-44.83%
Net Position							
Net Investment in Capital Assets	2,682,281	7,200,718	366,513	317,950	3,048,794	7,518,668	146.61%
Restricted	8,986,424	6,096,849	--	--	8,986,424	6,096,849	-32.15%
Unrestricted	2,778,184	940,028	353,015	465,142	3,131,199	1,405,170	-55.12%
Total Net Position	14,446,889	14,237,595	719,528	783,092	15,166,417	15,020,687	-0.96%
Beginning Net Position	14,049,673	14,446,889	1,017,810	719,528	15,067,483	15,166,417	0.66%
Increase (Decrease) in Net Position	\$ 397,216	\$ (209,294)	\$ (298,282)	\$ 63,564	\$ 98,934	\$ (145,730)	-247.30%
Percentage of Increase (Decrease) in Net Position	2.83%	-1.45%	-29.31%	8.83%	0.66%	-0.96%	

The District's combined net position of approximately \$15 million is approximately \$47,000 or 1% less than on June 30, 2016.

*N SCHOOL DISTRICT NO. 2-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017*

The Statement of Net Position reports all financial and capital resources. The statement presents the assets, deferred outflows of resources, liabilities and deferred inflows of resources in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the school, consisting of compensated absences payable and bonds, capital outlay certificates and other loans 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.

Changes in Net Position

The district's total revenues (excluding transfers) totaled \$28,916,556 (See Table A-4). This was approximately a 10% increase. Approximately 40% of the district's revenue comes from property and other taxes, with another 35% from state aid. (See Table A-2.)

Table A-2
Huron School District No. 2-2
Sources of Revenues
Fiscal Year 2016-2017

Taxes	\$ 11,570,590	40.01%
State Sources	10,237,553	35.40%
Operating And Capital Grants & Contributions	5,386,211	18.63%
Charges for Services	924,806	3.20%
Other Revenues	732,668	2.53%
Unrestricted Investment Earnings	64,728	0.23%
<i>Total Revenue</i>	\$ 28,916,556	100.00%

Total cost of all programs and services increased by approximately 10%. The district's expenses totaled \$29,062,286. (See Table A-4). The School's expenses cover a range of services, encompassing instruction, support services, interest on long term debt, co-curricular activities, food services, drivers' education and concessions. (See Table A-3.)

Table A-3
Huron School District No. 2-2
Statement of Expenditures
Fiscal Year 2016-2017

Instruction	\$ 15,782,460	54.28%
Support Services	9,179,498	31.59%
Food Service	1,586,524	5.46%
Interest - on Long-Term Debt	1,021,742	3.52%
Cocurricular Activities	972,801	3.35%
Community Services	222,527	0.77%
Concessions	149,919	0.52%
Nonprogrammed charges	142,199	0.49%
Drivers Education	4,616	0.02%
<i>Total Expenditures</i>	\$ 29,062,286	100.00%

**HURON SCHOOL DISTRICT NO. 2-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017**

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Table A-4 and the narrative that follows consider the operations of the governmental activities and the business-type activities of the school.

Table A-4
Huron School District 2-2
Changes in Net Position

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>		<i>Total Percentage Change 2016-2017</i>
	<i>2016</i>	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>	<i>2017</i>	
<i>Revenues</i>							
<i>Program Revenues</i>							
Charges for Services	\$ 204,507	\$ 241,428	\$ 669,291	\$ 683,378	\$ 873,798	\$ 924,806	5.84%
Operating Grants and Contributions	3,777,233	4,269,306	1,039,155	1,108,660	4,816,388	5,377,966	11.66%
Capital Grants and Contributions	--	--	161,191	8,245	161,191	8,245	100.00%
<i>General Revenues</i>							
Taxes	11,400,981	11,570,590	--	--	11,400,981	11,570,590	1.49%
Revenue State Sources	8,227,265	10,237,553	--	--	8,227,265	10,237,553	24.43%
Unrestricted Investment Earnings	62,532	60,388	2,589	4,340	65,121	64,728	-0.60%
Other General Revenues	847,338	732,668	--	--	847,338	732,668	-13.53%
<i>Total Revenues</i>	<u>24,519,856</u>	<u>27,111,933</u>	<u>1,872,226</u>	<u>1,804,623</u>	<u>26,392,082</u>	<u>28,916,556</u>	9.57%
<i>Expenses</i>							
Instruction	12,580,026	15,782,460	--	--	12,580,026	15,782,460	25.46%
Support Services	9,676,052	9,179,498	--	--	9,676,052	9,179,498	-5.13%
Community Services	208,076	222,527	--	--	208,076	222,527	6.95%
Nonprogrammed Charges	108,484	142,199	--	--	108,484	142,199	31.08%
Interest on Long Term Debt	1,148,009	1,021,742	--	--	1,148,009	1,021,742	-11.00%
Cocurricular Activities	901,993	972,801	--	--	901,993	972,801	7.85%
Food Service	--	--	1,514,775	1,586,524	1,514,775	1,586,524	4.74%
Other Enterprise Activity	--	--	155,733	154,535	155,733	154,535	-0.77%
<i>Total Expenses</i>	<u>24,622,640</u>	<u>27,321,227</u>	<u>1,670,508</u>	<u>1,741,059</u>	<u>26,293,148</u>	<u>29,062,286</u>	10.53%
<i>Excess (Deficiency) Before Transfers</i>	(102,784)	(209,294)	201,718	63,564	98,934	(145,730)	-247.30%
<i>Transfers</i>	<u>500,000</u>	--	<u>(500,000)</u>	--	--	--	0.00%
<i>Increase (Decrease) in Net Position</i>	397,216	(209,294)	(298,282)	63,564	98,934	(145,730)	-247.30%
<i>Beginning Net Position</i>	<u>14,049,673</u>	<u>14,446,889</u>	<u>1,017,810</u>	<u>719,528</u>	<u>15,067,483</u>	<u>15,166,417</u>	0.66%
<i>Ending Net Position</i>	<u>\$ 14,446,889</u>	<u>\$ 14,237,595</u>	<u>\$ 719,528</u>	<u>\$ 783,092</u>	<u>\$ 15,166,417</u>	<u>\$ 15,020,687</u>	-0.96%

GOVERNMENTAL ACTIVITIES

Revenues for the School's governmental activities increased approximately 10% due primarily to increases in ad valorem taxes and state aid. Property taxes did increase in General, Capital Outlay and Special Ed Funds due to increased valuations.

BUSINESS-TYPE ACTIVITIES

Net position of the School's business-type activities increased approximately \$63,564.

**HURON SCHOOL DISTRICT NO. 2-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Overall the governmental funds have a 2.2 million dollar decrease in fund balance over last year. The main cause was the final capital outlays for the tennis courts, artificial turf, and tiger stadium improvements.

GENERAL FUND 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.

There were budget changes for the year due to needing additional funding for general operating expenses in the General Fund.

CAPITAL ASSET ADMINISTRATION

By the end of 2017, the School had invested \$34,191,569 (net of depreciation) in a broad range of capital assets, including, land, buildings, various machinery and equipment. (See Table A-5.) The increase in capital assets is mainly due to the remodel/addition at Madison and Washington elementary schools.

Table A-5
HURON SCHOOL DISTRICT - Capital Assets
(net of depreciation)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total Dollar Change</i>	<i>Total Percentage Change</i>
	<i>2016</i>	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016-2017</i>	<i>2016-2017</i>
Land	\$ 1,107,646	\$ 1,107,646	\$ --	\$ --	\$ --	0.00%
Construction in progress	8,809,931	--	--	--	(8,809,931)	-100.00%
Buildings	22,232,113	31,976,782	--	--	9,744,669	43.83%
Machinery and equipment	2,041,879	2,159,462	366,513	317,950	69,020	3.38%
<i>Total Capital Assets (Net)</i>	<u>\$ 34,191,569</u>	<u>\$ 35,243,890</u>	<u>\$ 366,513</u>	<u>\$ 317,950</u>	<u>\$ 1,003,758</u>	2.94%

This year's capital asset purchases of 2,308,606 were mainly the tennis courts, artificial turf, tiger stadium improvements, and a variety of smaller purchases.

**HURON SCHOOL DISTRICT NO. 2-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017**

LONG-TERM DEBT

At year-end the School had \$31,509,288 in general long term obligations. See individual balances as shown on Table A-6 below.

Table A-6
HURON SCHOOL DISTRICT - Outstanding Debt and Obligations

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	<i>Total</i>
	<i>Activities</i>		<i>Activities</i>		<i>Dollar</i>	<i>Percentage</i>
	<i>2016</i>	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>Change</i>	<i>Change</i>
General Obligation bonds	\$ 19,465,000	\$ 18,960,000	\$ --	\$ --	\$ (505,000)	-2.59%
Unamortize premium	1,733,994	1,658,604	--	--	(75,390)	-4.35%
Capital outlay certificates	7,845,000	7,075,000	--	--	(770,000)	-9.82%
Unamortize premium	157,014	139,568	--	--	(17,446)	-11.11%
Capital lease	121,827	--	--	--	(121,827)	-100.00%
Other loans	1,699,400	1,523,460	--	--	(175,940)	-10.35%
Compensated Absences	110,376	115,563	8,456	8,767	5,498	4.63%
OPEB	376,677	361,493	--	--	(15,184)	-4.03%
Total Outstanding Debt and Obligations	\$ 31,509,288	\$ 29,833,688	\$ 8,456	\$ 8,767	\$ (1,675,289)	-5.32%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

One of the primary sources of revenue to the School is based on a per student allocation received from the State of South Dakota. In FY17, the state aid formula for the current year ensures that property taxes plus state aid will equal \$4,876.76 per pupil.

The school's enrollment for the last 2 years was as follows:

<i>YEAR</i>	<i>ADM</i>	<i>Percent (Decrease) in ADM</i>
2017	2536	2.59%
2016	2472	4.25%

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 Huron School District's Business Office, 150 5th Street Southwest, Huron, SD 57350.

HURON SCHOOL DISTRICT NO. 2-2
STATEMENT OF NET POSITION – GOVERNMENT-WIDE
FOR THE YEAR ENDED JUNE 30, 2017

	<i>PRIMARY GOVERNMENT</i>		<i>TOTAL</i>
	<i>GOVERNMENTAL ACTIVITIES</i>	<i>BUSINESS-TYPE ACTIVITIES</i>	
ASSETS:			
Cash and cash equivalents	\$ 6,754,404	\$ 446,759	\$ 7,201,163
Taxes receivable	5,312,650	--	5,312,650
Inventories	--	44,554	44,554
Other assets	1,097,757	49,331	1,147,088
Capital assets:			
Land	1,107,646	--	1,107,646
Other capital assets, net of depreciation	34,136,244	317,950	34,454,194
TOTAL ASSETS	48,408,701	858,594	49,267,295
DEFERRED OUTFLOWS OF RESOURCES:			
Pension related deferred outflows	5,750,041	--	5,750,041
TOTAL DEFERRED OUTFLOWS OF RESOURCES:	5,750,041	--	5,750,041
LIABILITIES:			
Accounts payable	570,602	14,514	585,116
Other current liabilities	1,935,614	24,776	1,960,390
Unearned revenue	--	27,445	27,445
Noncurrent liabilities:			
Due within one year	1,609,339	5,000	1,614,339
Due in more than one year	30,579,779	3,767	30,583,546
TOTAL LIABILITIES	34,695,334	75,502	34,770,836
DEFERRED INFLOWS OF RESOURCES:			
Property taxes levied for future period	5,156,646	--	5,156,646
Pension related deferred inflows	69,167	--	69,167
TOTAL DEFERRED INFLOWS OF RESOURCES:	5,225,813	--	5,225,813
NET POSITION:			
Net investment in capital assets	7,200,718	317,950	7,518,668
Restricted for:			
Capital outlay	1,844,022	--	1,844,022
Special education	774,259	--	774,259
Pension	50,350	--	50,350
Debt services	90,825	--	90,825
Auditorium	11,949	--	11,949
SDRS pension purposes	3,325,444	--	3,325,444
Unrestricted	940,028	465,142	1,405,170
TOTAL NET POSITION	\$ 14,237,595	\$ 783,092	\$ 15,020,687

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

HURON SCHOOL DISTRICT NO. 2-2
STATEMENT OF ACTIVITIES – GOVERNMENT-WIDE
FOR THE YEAR ENDED JUNE 30, 2017

FUNCTIONS / PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		TOTAL
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
PRIMARY GOVERNMENT:							
<i>Governmental Activities:</i>							
Instruction	\$ 15,782,460	\$ 119,837	\$ 4,268,926	\$ --	\$ (11,393,697)	\$ --	\$ (11,393,697)
Support services	9,171,253	15,138	380	--	(9,155,735)	--	(9,155,735)
Community services	222,527	--	--	--	(222,527)	--	(222,527)
Nonprogrammed charges	142,199	--	--	--	(142,199)	--	(142,199)
Interest - on long-term debt*	1,021,742	--	--	--	(1,021,742)	--	(1,021,742)
Cocurricular activities	972,801	106,453	--	--	(866,348)	--	(866,348)
<i>Total Governmental Activities</i>	<u>27,312,982</u>	<u>241,428</u>	<u>4,269,306</u>	<u>--</u>	<u>(22,802,248)</u>	<u>--</u>	<u>(22,802,248)</u>
BUSINESS-TYPE ACTIVITIES:							
Food service	1,586,524	477,761	1,108,660	--	--	(103)	(103)
Concessions	149,919	172,347	--	--	--	22,428	22,428
Driver's education	4,616	33,270	--	--	--	28,654	28,654
<i>Total Business-Type Activities</i>	<u>1,741,059</u>	<u>683,378</u>	<u>1,108,660</u>	<u>--</u>	<u>--</u>	<u>50,979</u>	<u>50,979</u>
<i>Total Primary Government</i>	<u>\$ 29,054,041</u>	<u>\$ 924,806</u>	<u>\$ 5,377,966</u>	<u>\$ --</u>	<u>(22,802,248)</u>	<u>50,979</u>	<u>(22,751,269)</u>
GENERAL REVENUES:							
Taxes:							
					11,144,861	--	11,144,861
					425,729	--	425,729
Revenue from State Sources:							
					10,237,553	--	10,237,553
					60,388	4,340	64,728
					732,668	--	732,668
					(8,245)	8,245	--
					<u>22,592,954</u>	<u>12,585</u>	<u>22,605,539</u>
						(209,294)	(145,730)
					<u>14,446,889</u>	<u>719,528</u>	<u>15,166,417</u>
					<u>\$ 14,237,595</u>	<u>\$ 783,092</u>	<u>\$ 15,020,687</u>

* The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The accompanying Notes to Financial Statements are an integral part of these financial statements.

HURON SCHOOL DISTRICT NO. 2-2
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>GENERAL FUND</u>	<u>CAPITAL OUTLAY FUND</u>	<u>SPECIAL EDUCATION FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS:					
Cash and cash equivalents	\$ 3,532,063	\$ 2,139,226	\$ 929,991	\$ 153,124	\$ 6,754,404
Taxes receivable--current	2,074,676	1,579,690	832,737	669,543	5,156,646
Taxes receivable--delinquent	79,368	40,288	15,289	21,059	156,004
Accounts receivable	284,573	--	--	--	284,573
Due from other government	624,603	--	188,581	--	813,184
TOTAL ASSETS	<u>\$ 6,595,283</u>	<u>\$ 3,759,204</u>	<u>\$ 1,966,598</u>	<u>\$ 843,726</u>	<u>\$ 13,164,811</u>
LIABILITIES AND FUND BALANCES:					
<i>Liabilities:</i>					
Accounts payable	\$ 255,208	\$ 295,204	\$ 20,190	\$ --	\$ 570,602
Contracts payable	1,235,521	--	248,620	--	1,484,141
Payroll deductions and withholding and employer matching payable	375,970	--	75,503	--	451,473
TOTAL LIABILITIES	<u>1,866,699</u>	<u>295,204</u>	<u>344,313</u>	<u>--</u>	<u>2,506,216</u>
<i>Deferred Inflows of Resources:</i>					
Unavailable Revenue-Property Taxes	79,368	40,288	15,289	21,059	156,004
Property taxes levied for future period	2,074,676	1,579,690	832,737	669,543	5,156,646
Total Deferred Inflows of Resources	<u>2,154,044</u>	<u>1,619,978</u>	<u>848,026</u>	<u>690,602</u>	<u>5,312,650</u>
<i>Fund Balances:</i>					
<i>Restricted</i>					
Capital outlay	--	1,844,022	--	--	1,844,022
Special education	--	--	774,259	--	774,259
Pension	--	--	--	50,350	50,350
Debt service	--	--	--	90,825	90,825
Auditorium	--	--	--	11,949	11,949
Unassigned	2,574,540	--	--	--	2,574,540
Total Fund Balances	<u>2,574,540</u>	<u>1,844,022</u>	<u>774,259</u>	<u>153,124</u>	<u>5,345,945</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 6,595,283</u>	<u>\$ 3,759,204</u>	<u>\$ 1,966,598</u>	<u>\$ 843,726</u>	<u>\$ 13,164,811</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**HURON SCHOOL DISTRICT NO. 2-2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION – GOVERNMENTAL FUNDS
JUNE 30, 2017**

<i>Total Fund Balances - Governmental Funds</i>	\$	5,345,945
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		35,243,890
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.		5,750,041
Delinquent taxes receivable not available to pay current year expenditures are deferred in the funds		156,004
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.		(2,424,597)
Long-term liabilities, including bonds payable, other post employment benefits, and accrued vacation are not due and payable in the current period and therefore are not reported in the funds.		(29,833,688)
<i>Net Position-Governmental Funds</i>	<u>\$</u>	<u>14,237,595</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

HURON SCHOOL DISTRICT NO. 2-2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	GENERAL FUND	CAPITAL OUTLAY FUND	SPECIAL EDUCATION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
<i>Revenue from Local Sources:</i>					
<i>Taxes:</i>					
Ad valorem taxes	\$ 4,533,957	\$ 3,314,776	\$ 1,480,989	\$ 1,567,757	\$ 10,897,479
Prior years' ad valorem taxes	82,447	41,197	15,967	21,948	161,559
Tax deed revenue	1,171	65	23	34	1,293
Utility taxes	425,729	--	--	--	425,729
Penalties and interest on taxes	15,263	9,150	3,562	4,745	32,720
<i>Revenue from Local Governmental Units</i>					
<i>Other Than LEAs:</i>					
Revenue in lieu of taxes	7,373	--	--	--	7,373
<i>Tuition and Fees:</i>					
Regular day school tuition	117,283	--	2,554	--	119,837
Earnings on Investments and Deposits	29,767	19,780	8,675	2,166	60,388
<i>Cocurricular Activities:</i>					
Admissions	79,133	--	--	4,104	83,237
Other pupil activity income	23,216	--	--	--	23,216
<i>Other Revenue from Local Sources:</i>					
Rentals	43,610	--	--	--	43,610
Contributions and donations	12,456	10,000	--	--	22,456
Services Provided Other LEAs	15,138	--	--	--	15,138
Services provided other school districts	--	--	380	--	380
Charges for services	40,479	--	153,972	--	194,451
Other	155,313	--	681	--	155,994
<i>Revenue from Intermediate Sources:</i>					
<i>County Sources:</i>					
County apportionment	234,324	--	--	--	234,324
<i>Revenue from State Sources:</i>					
<i>Grants-in-Aid:</i>					
Unrestricted grants-in-aid	10,237,553	--	--	--	10,237,553
Restricted grants-in-aid	662	--	1,740,939	--	1,741,601
<i>Tuition:</i>					
Regular	105,955	--	--	--	105,955
<i>Revenue from Federal Sources:</i>					
<i>Grants-in-Aid:</i>					
Restricted grants-in-aid received from federal government through the state	1,751,976	--	669,394	--	2,421,370
Other Federal Revenue	74,460	--	--	--	74,460
TOTAL REVENUES:	17,987,265	3,394,968	4,077,136	1,600,754	27,060,123

The accompanying Notes to Financial Statements are an integral part of these financial statements.

HURON SCHOOL DISTRICT NO. 2-2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(CONTINUED)

	<u>GENERAL FUND</u>	<u>CAPITAL OUTLAY FUND</u>	<u>SPECIAL EDUCATION FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
EXPENDITURES:					
<i>Instruction:</i>					
<i>Regular Programs:</i>					
Elementary	\$ 4,335,114	\$ 298,190	\$ --	\$ --	\$ 4,633,304
Middle/junior high	1,980,458	180,623	--	--	2,161,081
High school	2,736,702	206,298	--	--	2,943,000
Preschool services	3,610	--	--	--	3,610
<i>Special Programs:</i>					
Programs for special education	--	1,800	2,862,390	--	2,864,190
Culturally different	802,944	--	--	--	802,944
Educationally deprived	923,954	--	--	--	923,954
<i>Support Services:</i>					
<i>Pupils:</i>					
Attendance and social work	173,237	--	26,841	--	200,078
Guidance	418,820	--	12,069	--	430,889
Health	98,038	--	95,542	--	193,580
Psychological	173	--	222,389	--	222,562
Speech pathology	--	--	459,412	--	459,412
Student therapy services	--	--	150,924	--	150,924
<i>Instructional Staff:</i>					
Improvement of instruction	372,209	2,000	2,031	--	376,240
Educational media	607,807	175,571	--	--	783,378
<i>General Administration:</i>					
Board of education	192,236	771	--	--	193,007
Executive administration	235,813	2,000	--	--	237,813
<i>School Administration:</i>					
Office of the principal	795,505	--	--	--	795,505
Other	323,752	7,093	--	--	330,845
<i>Business:</i>					
Fiscal services	363,600	3,715	--	--	367,315
Facilities acquisition and construction	--	435,526	--	5,277	440,803
Operation and maintenance of plant	2,178,730	260,656	--	--	2,439,386
Pupil transportation	687,092	7,564	--	--	694,656
Food services	72,641	24,996	--	--	97,637
<i>Central:</i>					
Staff	1,545	--	--	--	1,545

The accompanying Notes to Financial Statements are an integral part of these financial statements.

HURON SCHOOL DISTRICT NO. 2-2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(CONTINUED)

	<u>GENERAL FUND</u>	<u>CAPITAL OUTLAY FUND</u>	<u>SPECIAL EDUCATION FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
EXPENDITURES:					
<i>Special Education:</i>					
Administrative costs	\$ --	\$ --	\$ 173,952	\$ --	\$ 173,952
Other special education costs	--	--	109,859	--	109,859
<i>Community Services:</i>					
Recreation	34,964	--	--	--	34,964
Custody and care of children	141,723	--	--	--	141,723
Nonpublic school	41,272	--	--	--	41,272
<i>Nonprogrammed Charges:</i>					
Early Retirement Payments	--	--	--	142,199	142,199
<i>Debt Services</i>	--	1,265,708	--	1,421,637	2,687,345
<i>Cocurricular Activities:</i>					
Male activities	339,059	--	--	--	339,059
Female activities	299,237	--	--	--	299,237
Combined activities	246,534	25,344	--	--	271,878
<i>Capital Outlay</i>	20,074	2,288,532	--	--	2,308,606
TOTAL EXPENDITURES	18,426,843	5,186,387	4,115,409	1,569,113	29,297,752
<i>Excess of Revenue Over (Under) Expenditures</i>	(439,578)	(1,791,419)	(38,273)	31,641	(2,237,629)
OTHER FINANCING SOURCES (USES):					
Transfers in	330,621	--	--	--	330,621
Transfers out	--	(319,780)	(8,675)	(2,166)	(330,621)
Sale of surplus property	9,107	--	--	--	9,107
Compensation for loss of capital asset	400	--	--	--	400
TOTAL OTHER FINANCING SOURCES (USES)	340,128	(319,780)	(8,675)	(2,166)	9,507
<i>Net Change in Fund Balances</i>	(99,450)	(2,111,199)	(46,948)	29,475	(2,228,122)
<i>FUND BALANCE - Beginning of Year</i>	2,673,990	3,955,221	821,207	123,649	7,574,067
<i>FUND BALANCE - End of Year</i>	\$ 2,574,540	\$ 1,844,022	\$ 774,259	\$ 153,124	\$ 5,345,945

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**HURON SCHOOL DISTRICT NO. 2-2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

<i>Net Change in Fund Balances - Total Governmental Funds</i>			\$ (2,228,122)
Amounts reported for governmental activities in the statement of activities are different because:			
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government wide statements.			2,308,606
The receipt of donated capital assets is not reported on the fund statements but is reported as a program revenue on the government wide statements.			7,967
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.			(1,244,392)
In the statement of activities gain and losses of \$10,299 on disposal of capital are reported, whereas, in the governmental funds, the proceeds of \$9,507 from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized (+gains -losses -proceeds =amount).			(19,860)
Payment of the principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position.			1,665,603
In both the government-wide and the fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria".			51,810
Governmental funds recognize expenditures for amounts of compensated absences and early retirement benefits actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits or elect to retire early.	Other postemployment benefits	15,184	
	Compensated absences	<u>(5,187)</u>	9,997
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.			<u>(760,903)</u>
<i>Change in Net Position of Governmental Activities</i>			<u>\$ (209,294)</u>

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

HURON SCHOOL DISTRICT NO. 2-2
STATEMENT OF NET POSITION – PROPRIETARY FUND
JUNE 30, 2017

	<i>ENTERPRISE FUNDS</i>		
	<i>FOOD SERVICE FUND</i>	<i>OTHER ENTERPRISE FUNDS</i>	<i>TOTAL</i>
	<u> </u>	<u> </u>	<u> </u>
ASSETS:			
<i>Current Assets:</i>			
Cash and cash equivalents	\$ 307,008	\$ 139,751	\$ 446,759
Accounts Receivable	7,503	--	7,503
Due from other government	41,828	--	41,828
Inventory of supplies	8,172	1,401	9,573
Inventory of stores purchased for resale	19,402	4,168	23,570
Inventory of donated food	11,411	--	11,411
<i>Total Current Assets</i>	<u>395,324</u>	<u>145,320</u>	<u>540,644</u>
<i>Capital Assets:</i>			
Machinery and equipment--local funds	583,520	33,156	616,676
Machinery and equipment--federal assistance	7,918	--	7,918
Accumulated depreciation	(283,698)	(22,946)	(306,644)
<i>Capital Assets - Net</i>	<u>307,740</u>	<u>10,210</u>	<u>317,950</u>
TOTAL ASSETS	<u><u>\$ 703,064</u></u>	<u><u>\$ 155,530</u></u>	<u><u>\$ 858,594</u></u>
LIABILITIES AND NET POSITION:			
<i>Liabilities:</i>			
<i>Current Liabilities:</i>			
Accounts payable	\$ 13,941	\$ 573	\$ 14,514
Contract payable	12,507	9,117	21,624
Payroll deductions and withholdings	2,051	1,101	3,152
Unearned revenue	27,445	--	27,445
<i>Total Current Liabilities</i>	<u>55,944</u>	<u>10,791</u>	<u>66,735</u>
<i>Noncurrent Liabilities:</i>			
Accrued leave payable	8,767	--	8,767
<i>Total Noncurrent Liabilities</i>	<u>8,767</u>	<u>--</u>	<u>8,767</u>
<i>Net Position:</i>			
Net investment in capital assets	307,740	10,210	317,950
Unrestricted net position	330,613	134,529	465,142
<i>Total Net Position</i>	<u>638,353</u>	<u>144,739</u>	<u>783,092</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 703,064</u></u>	<u><u>\$ 155,530</u></u>	<u><u>\$ 858,594</u></u>

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

HURON SCHOOL DISTRICT NO. 2-2
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<i>ENTERPRISE FUNDS</i>		
	<i>FOOD</i>	<i>OTHER</i>	<i>TOTAL</i>
	<i>SERVICE</i>	<i>ENTERPRISE</i>	
	<i>FUND</i>	<i>FUND</i>	
OPERATING REVENUES:			
<i>Sales:</i>			
To pupils	\$ 375,831	\$ 171,740	\$ 547,571
To adults	16,580	--	16,580
A la carte	63,018	--	63,018
Other	22,332	33,877	56,209
<i>Total Operating Revenue</i>	<u>477,761</u>	<u>205,617</u>	<u>683,378</u>
OPERATING EXPENSES:			
Salaries	626,136	74,771	700,907
Employee benefits	192,912	8,265	201,177
Purchased services	24,750	1,613	26,363
Supplies	51,667	6,121	57,788
Cost of sales - purchased food	531,901	62,216	594,117
Cost of sales - donated food	102,821	--	102,821
Depreciation - local funds	48,999	1,549	50,548
<i>Total Operating Expenses</i>	<u>1,579,186</u>	<u>154,535</u>	<u>1,733,721</u>
<i>Operating Income (Loss)</i>	<u>(1,101,425)</u>	<u>51,082</u>	<u>(1,050,343)</u>
NONOPERATING REVENUES:			
<i>Local Sources:</i>			
Investment earnings	3,178	1,162	4,340
<i>State Sources:</i>			
Cash reimbursements	6,307	--	6,307
<i>Federal Sources:</i>			
Cash reimbursements	993,008	--	993,008
Donated food	109,345	--	109,345
<i>Total Nonoperating Revenue</i>	<u>1,111,838</u>	<u>1,162</u>	<u>1,113,000</u>
NONOPERATING EXPENSES:			
Loss on Disposal of Capital Assets	6,995	343	7,338
<i>Total Nonoperating Expense</i>	<u>6,995</u>	<u>343</u>	<u>7,338</u>
<i>Income Before Contributions and Transfers</i>	3,418	51,901	55,319
<i>Capital Contributions</i>	<u>8,245</u>	<u>--</u>	<u>8,245</u>
<i>Change in Net Position</i>	11,663	51,901	63,564
<i>NET POSITION - Beginning of Year</i>	<u>626,690</u>	<u>92,838</u>	<u>719,528</u>
<i>NET POSITION - End of Year</i>	<u>\$ 638,353</u>	<u>\$ 144,739</u>	<u>\$ 783,092</u>

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

HURON SCHOOL DISTRICT NO. 2-2
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<i>ENTERPRISE FUNDS</i>		
	<i>FOOD SERVICE FUND</i>	<i>OTHER ENTERPRISE FUND</i>	<i>TOTALS</i>
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>			
Cash receipts from customers	\$ 487,936	\$ 205,617	\$ 693,553
Cash payments to suppliers	(822,529)	(75,149)	(897,678)
Cash payments to employees	(619,794)	(69,341)	(689,135)
<i>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</i>	<u>(954,387)</u>	<u>61,127</u>	<u>(893,260)</u>
<i>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</i>			
Cash reimbursements - state	6,307	--	6,307
Cash reimbursements - federal	1,004,144	--	1,004,144
<i>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</i>	<u>1,010,451</u>	<u>--</u>	<u>1,010,451</u>
<i>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</i>			
Loss on disposal of assets	--	(1,078)	(1,078)
<i>NET CASH (USED) BY CAPITAL FINANCING ACTIVITIES</i>	<u>--</u>	<u>(1,078)</u>	<u>(1,078)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>			
Interest earnings	3,178	1,162	4,340
<i>NET CASH FLOWS FROM INVESTING ACTIVITIES</i>	<u>3,178</u>	<u>1,162</u>	<u>4,340</u>
<i>NET INCREASE IN CASH AND CASH EQUIVALENTS</i>	59,242	61,211	120,453
<i>CASH AND CASH EQUIVALENTS, Beginning of Year</i>	<u>247,766</u>	<u>78,540</u>	<u>326,306</u>
<i>CASH AND CASH EQUIVALENTS, End of Year</i>	<u>\$ 307,008</u>	<u>\$ 139,751</u>	<u>\$ 446,759</u>

*The accompanying Notes to Financial Statements are
an integral part of these financial statements*

HURON SCHOOL DISTRICT NO. 2-2
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017
(CONTINUED)

	<i>ENTERPRISE FUNDS</i>		
	<i>FOOD SERVICE FUND</i>	<i>OTHER ENTERPRISE FUND</i>	<i>TOTALS</i>
<i>RECONCILIATION OF OPERATING INCOME (LOSS) TO</i>			
<i>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</i>			
Operating Income (Loss)	\$ (1,101,425)	\$ 51,082	\$ (1,050,343)
<i>Adjustments to Reconcile Operating Income to</i>			
<i>Net Cash Provided (Used) by Operating Activities:</i>			
Depreciation expense	48,999	1,549	50,548
Noncash cost of sales - commodities	102,821	--	102,821
<i>Change in Assets and Liabilities:</i>			
Accounts receivable	(3,321)	--	(3,321)
Inventories	(894)	836	(58)
Accounts and other payables	(10,582)	(227)	(10,809)
Accrued wages payable	(3,481)	7,887	4,406
Unearned Revenue	13,496	--	13,496
<i>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</i>	<u>\$ (954,387)</u>	<u>\$ 61,127</u>	<u>\$ (893,260)</u>
<i>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</i>			
Value of commodities received	<u>\$ 109,345</u>	<u>\$ --</u>	<u>\$ 109,345</u>
Capital assets purchased by the capital outlay fund	<u>\$ 8,245</u>	<u>\$ --</u>	<u>\$ 8,245</u>

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

HURON SCHOOL DISTRICT NO. 2-2
STATEMENT OF NET POSITION – FIDUCIARY FUNDS
JUNE 30, 2017

	<i>PRIVATE PURPOSE TRUST FUND</i>	<i>AGENCY FUNDS</i>
	<u> </u>	<u> </u>
<i>ASSETS:</i>		
Cash and cash equivalents	\$ 189,257	\$ 207,362
TOTAL ASSETS	<u>189,257</u>	<u>207,362</u>
<i>LIABILITIES:</i>		
Amounts held for others	<u> --</u>	<u>207,362</u>
<i>NET POSITION</i>		
Held in trust for school scholarship	<u>189,257</u>	<u> --</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 189,257</u>	<u>\$ 207,362</u>

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

HURON SCHOOL DISTRICT NO. 2-2
STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<i>PRIVATE PURPOSE TRUST FUND</i>
ADDITIONS:	
Contributions and donations	\$ 17,432
Other additions	1,508
<i>Total Additions</i>	18,940
DEDUCTIONS:	
Trust deductions for scholarships	15,787
<i>Total Deductions</i>	15,787
<i>Change in Net Position</i>	3,153
<i>NET POSITION - Beginning of Year</i>	186,104
<i>NET POSITION - End of Year</i>	\$ 189,257

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

*HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:*

a. *Financial Reporting Entity:*

The reporting entity of Huron School District No. 2-2, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District. The School District has no component units.

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

b. *Basis of Presentation:*

Government-Wide Financial Statements:

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

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

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

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** *(continued)*

b. **Basis of Presentation:** *(continued)*

Fund Financial Statements:

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

1. Total assets, liabilities, 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, liabilities, 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 School 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 the capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types – 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 School District. This fund is financed by grants and property taxes. This is a major fund.

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** *(continued)*

b. **Basis of Presentation:** *(continued)*

Governmental Funds: *(continued)*

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

Auditorium Building Fund – A fund established by SDCL 6-4-1 for the purpose of erecting or remodeling an auditorium, coliseum, public gymnasium, or public community house and for the acquisition of sites and equipment therefore. This is not a major fund.

Debt Service Fund Types – 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 – A 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. This fund is the only debt service fund maintained by the School District. This is not a major fund.

Proprietary Funds:

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

1. 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 of 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.)

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)***

b. ***Basis of Presentation: (continued)***

Proprietary Funds: (continued)

Enterprise Funds: (continued)

2. **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.**
3. **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.

The Enterprise Fund is an enterprise fund maintained by the School District for concessions and driver's education. It is not 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 organizations. The School District maintains the following private-purpose trust funds: Harrigle, Kittinger, Peppers and Huron Community Scholarship Trusts and their purpose is scholarships.

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

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.

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** *(continued)*

c. **Measurement Focus and Basis of Accounting:** *(continued)*

Measurement Focus: *(continued)*

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 funds.

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 Huron School District No. 2-2, the length of that cycle is sixty days.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. 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 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.

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** *(continued)*

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 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.

Fund Financial Statements:

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

e. **Capital Assets:**

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

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

Government-Wide Financial Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at the 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, construct period interest is capitalized in accordance with USGAAP.

**HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (continued)

e. **Capital Assets:** (continued)

Government-Wide Financial Statements: (continued)

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

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:

	<i>Capitalization Threshold</i>	<i>Depreciation Method</i>	<i>Estimated Useful Life</i>
Land	\$1,000	--	--
Land improvements	\$1,000	straight-line	20 years
Buildings	\$50,000	straight-line	50 years
Machinery and equipment	\$1,000	straight-line	4-20 years

Land, an inexhaustible capital asset, is not depreciated.

Fund Financial Statements:

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

f. **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 consist primarily of compensated absences, capital outlay certificates payable and general obligation bonds payable.

*HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

f. *Long-Term Liabilities: (continued)*

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 consist primarily of compensated absences, early retirement benefits payable, capital outlay certificates payable and general obligation bonds payable.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources) and payment 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 it is in the government-wide statements.

g. *Program Revenues:*

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

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

h. *Proprietary Funds Revenue and Expense Classifications:*

In the proprietary fund's Statement of Activities, 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.

i. *Cash and Cash Equivalents:*

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

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** *(continued)*

j. **Equity Classifications:**

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between 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.

k. **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.

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** *(continued)*

1. **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 or committed. Fund Balance may be assigned by School Board.

Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

Major Special Revenue Fund	Revenue Source
Capital Outlay Fund	Taxes
Special Education Fund	Taxes

m. **Pensions:**

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pension, 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.

*HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017*

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); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Interest Rate Risk – The School District does not have a formal investment policy that limits investment maturities as a mean 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 discusses above. The School District has no investment policy that would further limit its investment choices. As of June 30, 2017, the school did not have investments.

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer. As of June 30, 2017, the School District did not have investments.

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District’s policy is to credit all income from deposits and investments to the General Fund, except for the private-purpose trust fund(s) which retains its investment income. USGAAP, on the other hand, requires income form 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 investment, 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 restrictions on interfund transfers.

*HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017*

3. *PROPERTY TAX:*

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 intended to be used to finance the current year's appropriations, but which will not be collected during the current fiscal year or within the "availability period" has been deferred in the fund financial statements. Property tax revenues intended to finance the current year's appropriations, and therefore susceptible to accrual, has been reported as revenue in the government-wide financial statements, even though collection will occur in a future fiscal year.

4. *RECIEVABLES AND PAYABLES:*

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year. Amounts receivable and due from other governments include reimbursements for various programs. These amounts include \$260,241 for accounts receivable and \$702,758 for due from the state or federal government.

5. *INVENTORY:*

Inventory held for consumption is stated at cost. Donated commodities are valued at estimated market value based on the USDA price list on the date of receipt.

In the government-wide financial statements 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 governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by a nonspendable fund balance. No material inventories were on hand at June 30, 2017, for the governmental funds.

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

6. CHANGES IN CAPITAL ASSETS:

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

	<u>Balance 7/01/16</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/17</u>
PRIMARY GOVERNMENT:				
Land	\$ 1,107,646	\$ --	\$ --	\$ 1,107,646
Construction in progress	8,809,931	--	(8,809,931)	--
<i>Total, not being depreciated</i>	<u>9,917,577</u>	<u>--</u>	<u>(8,809,931)</u>	<u>1,107,646</u>
<i>Capital assets, being depreciated:</i>				
Buildings	30,777,405	8,221,109	--	38,998,514
Improvements other than buildings	2,967,300	2,297,688	--	5,264,988
Machinery and equipment	6,064,603	607,707	(367,893)	6,304,417
<i>Total, being depreciated</i>	<u>39,809,308</u>	<u>11,126,504</u>	<u>(367,893)</u>	<u>50,567,919</u>
<i>Less accumulated depreciation for:</i>				
Buildings	8,545,292	702,472	--	9,247,764
Improvements other than buildings	2,967,300	71,656	--	3,038,956
Machinery and equipment	4,022,724	470,264	(348,033)	4,144,955
<i>Total accumulated depreciation</i>	<u>15,535,316</u>	<u>1,244,392</u>	<u>(348,033)</u>	<u>16,431,675</u>
<i>Total capital assets, being depreciated, net</i>	<u>24,273,992</u>	<u>9,882,112</u>	<u>(19,860)</u>	<u>34,136,244</u>
<i>Governmental activity capital assets, net</i>	<u>\$ 34,191,569</u>	<u>\$ 9,882,112</u>	<u>\$ (8,829,791)</u>	<u>\$ 35,243,890</u>

Depreciation expense was charged to functions as follows:

<i>Governmental activities:</i>	
Instruction	\$ 871,074
Support services	311,098
Co-curricular activities	<u>62,220</u>
<i>Total Depreciation Expense - Governmental Activities</i>	<u>\$ 1,244,392</u>

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

6. CHANGES IN CAPITAL ASSETS: (continued)

	<i>Balance 7/01/16</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance 6/30/17</i>
<i>BUSINESS-TYPE ACTIVITIES:</i>				
<i>Capital assets, being depreciated:</i>				
Buildings	\$ 13,900	\$ --	\$ (13,900)	\$ --
Machinery and equipment	1,078,479	9,323	(463,208)	624,594
<i>Total, being depreciated</i>	1,092,379	9,323	(477,108)	624,594
<i>Less accumulated depreciation for:</i>				
Buildings	13,900	--	(13,900)	--
Machinery and equipment	711,966	50,548	(455,870)	306,644
<i>Total accumulated depreciation</i>	725,866	50,548	(469,770)	306,644
<i>Business-type activity capital assets, net</i>	\$ 366,513	\$ (41,225)	\$ (7,338)	\$ 317,950

Depreciation expense was charged to functions as follows:

<i>Business-type activities:</i>	
Food service	\$ 48,999
Other enterprise funds	1,549
Total Depreciation Expense - Business-Type Activities	\$ 50,548

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

7. LONG-TERM LIABILITIES:

	<u>Balance 7/01/2016</u>	<u>Balance Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2017</u>	<u>Amount Due Within One Year</u>
<i>Governmental Activities:</i>					
General obligation					
Bond:					
Series 2013	\$ 19,465,000	\$ --	\$ 505,000	\$ 18,960,000	\$ 520,000
Plus unamortized premium	1,733,994	--	75,390	1,658,604	75,390
Capital outlay certificates:					
Series 2016	5,685,000	--	400,000	5,285,000	480,000
Plus unamortized premium	157,014	--	17,446	139,568	17,446
Series 2013	1,725,000	--	80,000	1,645,000	80,000
Series 2012	435,000	--	290,000	145,000	145,000
Capital lease	121,827	--	121,827	--	--
REED loan	240,000	--	30,000	210,000	30,000
SD Energy Efficient loan	1,459,400	--	145,940	1,313,460	145,940
Compensated absences	110,376	156,391	151,204	115,563	115,563
OPEB	376,677	111,698	126,882	361,493	--
<i>Governmental Activities Long-term Liabilities</i>	<u>\$ 31,509,288</u>	<u>\$ 268,089</u>	<u>\$ 1,943,689</u>	<u>\$ 29,833,688</u>	<u>\$ 1,609,339</u>

Compensated absences for governmental activities typically have been liquidated from the General and Special Education Funds.

Business-type Activities:

	<u>Balance 7/01/2016</u>	<u>Balance Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2017</u>	<u>Amount Due Within One Year</u>
Compensated Absences	<u>\$ 8,456</u>	<u>\$ 9,246</u>	<u>\$ 8,935</u>	<u>\$ 8,767</u>	<u>\$ 8,767</u>

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

7. LONG-TERM LIABILITIES: (continued)

Debt Payable at June 30, 2017 is comprised of the following:

General Obligation Bonds:

The School District issued \$20,195,000 of General Obligation Bonds, Series 2013. The bonds are payable on December 15, 2014 through June 15, 2039 with fixed interest rates from 2.0% to 5.0% that vary depending on the term of maturity. The Bond Redemption Fund makes payment on this debt. \$ 18,960,000

Capital Outlay Certificates:

The School District issued \$5,840,000 of Capital Outlay Refunding Certificates, Series 2016. The certificates are payable on June 1, 2016 through June 1, 2026 with fixed interest rates from 0.85% to 3.5% that vary depending on the term of maturity. The Capital Outlay Fund makes payment on this debt. 5,285,000

The School District issued \$1,945,000 of Limited Tax General Obligation Certificates, Series 2013. The bonds are payable on December 1, 2013 through December 1, 2032 with fixed interest rate of 3.45%. The Capital Outlay Fund makes payment on this debt. 1,645,000

The School District issued \$1,140,000 of Capital Outlay Refunding Certificates, Series 2012 on April 26, 2012. The certificates are payable from August 1, 2012 through August 1, 2017 with fixed interest rates from .40% to 1.0% that vary depending on the term of maturity. The Capital Outlay Fund makes payments on this debt. 145,000

Rural Electric Economic Development Inc. loan:

The School District received a \$300,000, 0% REED loan on October 2, 2013. Annual payments of \$30,000 are due for 10 years beginning November 1, 2014. The Capital Outlay Fund makes payment on this debt. 210,000

SD Energy Efficient loan:

The School District received a \$1,459,400 0% SD Energy Efficiency loan on November 25, 2013. Annual payments of \$145,940 are due for 10 years beginning July 31, 2016. The Capital Outlay Fund makes payment on this debt. 1,313,460

Compensated Absences:

Payments for vested accrued vacation leave from the fund from which the employee is generally compensated. 124,330

Other Postemployment Benefits:

Obligations to individuals who are retired or will retire from the school district and who will receive postemployment benefits. Payments are to be made from the General Fund. 361,493

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

7. LONG-TERM LIABILITIES: (continued)

The annual requirements to amortize the general obligation bonds, and capital outlay certificates outstanding at June 30, 2017, are as follows:

General Obligation Bonds

<i>Year Ending June 30</i>	<i>Governmental Activities</i>		<i>Total</i>
	<i>Principal</i>	<i>Interest</i>	
2018	\$ 520,000	\$ 900,737	\$ 1,420,737
2019	535,000	885,063	1,420,063
2020	555,000	864,787	1,419,787
2021	575,000	842,388	1,417,388
2022	605,000	814,687	1,419,687
2023-2027	3,465,000	3,639,188	7,104,188
2028-2032	4,400,000	2,703,625	7,103,625
2033-2037	5,630,000	1,471,750	7,101,750
2038-2039	2,675,000	169,250	2,844,250
	<u>\$ 18,960,000</u>	<u>\$ 12,291,475</u>	<u>\$ 31,251,475</u>

Capital Outlay Certificates

<i>Year Ending June 30</i>	<i>Governmental Activities</i>		<i>Total</i>
	<i>Principal</i>	<i>Interest</i>	
2018	\$ 705,000	\$ 184,217	\$ 889,217
2019	645,000	175,133	820,133
2020	650,000	164,624	814,624
2021	665,000	151,154	816,154
2022	680,000	88,050	768,050
2023-2027	3,045,000	364,950	3,409,950
2028-2032	615,000	71,846	686,846
2033	70,000	1,207	71,207
	<u>\$ 7,075,000</u>	<u>\$ 1,201,181</u>	<u>\$ 8,276,181</u>

Other Loans

<i>Year Ending June 30</i>	<i>Governmental Activities</i>		<i>Total</i>
	<i>Principal</i>	<i>Interest</i>	
2018	\$ 175,940	\$ --	\$ 175,940
2019	175,940	--	175,940
2020	175,940	--	175,940
2021	175,940	--	175,940
2022	175,940	--	175,940
2023-2026	643,760	--	643,760
	<u>\$ 1,523,460</u>	<u>\$ --</u>	<u>\$ 1,523,460</u>

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

8. RESTRICTED NET POSITION:

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

<i>Fund</i>	<i>Restricted By</i>	<i>Amount</i>
Capital outlay	Law	\$ 1,844,020
Special education	Law	774,258
Pension	Law	50,350
Debt services	Debt covenants	90,825
Auditorium	Law	11,949
SDRS Pension purposes	Law	3,325,444
Total Restricted Net Position		\$ 6,096,846

9. INTERFUND TRANSFERS:

Transfers to/from other funds at June 30, 2017, consist of the following:

Transfers from the other governmental funds to the General Fund for income earned on	\$ 30,621
Transfer from Capital Outlay to General Fund for purposes of supplementing General Fund	\$ 300,000

10. PENSION PLAN:

a. Plan Information:

All employees, except for non-contracted staff, 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.

*HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017*

10. *PENSION PLAN: (continued)*

b. *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 on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

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

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

c. *Contributions:*

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

<u>Year</u>	<u>Amount</u>
2017	\$ 878,314
2016	\$ 795,497
2015	\$ 743,368

*HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017*

10. *PENSION PLAN: (continued)*

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

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

Proportionate share of pension liability	\$	75,666,423
Less proportionate share of net pension restricted for pension benefits		73,310,992
<i>Proportionate share of net pension liability</i>	\$	2,355,431

At June 30 2017, the School District reported a liability of \$2,355,431 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016, the School District's proportion was .69730590%, which is a decrease of .00186509% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense (revenue) of \$760,903. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Difference between expected and actual experience	\$ 819,978	\$ --
Changes in assumption	1,410,791	--
Net difference between projected and actual earnings on	2,620,036	69,167
Changes in proportion and difference between District	20,922	--
District contributions subsequent to the measurement date	878,314	--
<i>TOTAL</i>	\$ 5,750,041	\$ 69,167

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

10. PENSION PLAN: (continued)

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

\$878,314 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<i>Year Ended</i>	
<i>June 30,</i>	
2018	\$ 1,297,015
2018	779,867
2018	1,642,317
2018	<u>1,083,361</u>
TOTAL	<u>\$ 4,802,560</u>

e. Actuarial Assumptions:

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

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

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

The actuarial assumptions used in the June 30, 2017 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.

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

10. PENSION PLAN: (continued)

e. Actuarial Assumptions: (continued)

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:

<i>Asset Class</i>	<i>Target Allocation</i>	<i>Long-term Expected Real Rate of Return</i>
Global equity	58.0%	4.5%
Fixed income	30.0%	1.8%
Real estate	10.0%	4.6%
Cash	2.0%	0.7%
<i>TOTAL</i>	<u>100.0%</u>	

f. Discount Rate:

The discount rate used to measure the total pension liability 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.

**HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

10. PENSION PLAN: (continued)

g. 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)	\$ 13,180,960	\$ 2,355,431	\$ (6,473,950)

h. Pension Plan Fiduciary Net Position:

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

i. Payables to the Pension Plan:

No payables were reported to the defined benefit plan at end of year.

11. RISK MANAGEMENT:

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

Employee Health Insurance:

The School District joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage does not have a maximum payment per person.

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

11. RISK MANAGEMENT: (continued)

Liability Insurance:

The School District joined the Associated School Boards of South Dakota Property and Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota School Districts. The objective of ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage.

The School District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident, which could result in a claim being made by or against the School District. The School District pays an annual premium to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the ASBSD-PLF member, based on their exposure or type of coverage. The School District pays an annual premium to the pool to provide coverage for: General Liability, Automobile Liability, Employee Benefits, School Board Liability, Sexual Harassment, Sexual Abuse, Loss Fund – Liability & Property, Employee Practices Liability, Property and Boiler & Machinery, Crime, and Excess Liability.

The agreement with the ASBSD-PLF provides that the above coverage's will be provided to a \$2,000,000 limit for General Liability, Automobile Liability, Employee Benefits, School Board Liability, Sexual Harassment, Sexual Abuse, and Employee Practices. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The School District carries a \$5,000 for auto damage, property damage, crime, boiler & machinery, \$10,000 school board legal liability with monetary demand, and \$5,000 without monetary demand deductibles.

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

Workers' Compensation:

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool, which provided workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, of behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members.

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

11. RISK MANAGEMENT: (continued)

Workers' Compensation (continued)

The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance, which covers up to \$1,000,000 per individual per incident.

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

Unemployment Benefits:

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the year ended June 30, 2017, claims of \$0 for unemployment benefits were paid.

12. OTHER POSTEMPLOYMENT BENEFITS:

Other Postemployment Benefits (OPEB) Plan is a single-employer defined benefit healthcare plan administered by the Huron School District. The OPEB Plan provides medical insurance benefits to eligible retirees and their spouses as permitted by South Dakota Codified Law 6-1-16. Benefit provisions were established and may be amended during the negotiated agreement process between district certified staff and the governing board. The health plan does not issue separately stated stand-alone financial statements.

Funding policy – The District funds the other post-retirement 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. The retired employee's monthly contributions are based on 100% of the full active employee premium rate plus a \$5.00 monthly fee.

*HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017*

12. OTHER POSTEMPLOYMENT BENEFITS: (continued)

Annual OPEB cost and net OPEB obligation – The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (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 an amortize and unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the financial components of the plan:

<u>Governmental Activities</u>	
Annual required contribution	\$ 118,193
Interest on net OPEB obligation	15,820
Adjustment to annual required contribution	<u>(22,315)</u>
Annual OPEB cost (expense)	111,698
Contributions made	<u>(126,882)</u>
Increase in net OPEB obligation	(15,184)
OPEB obligation - beginning	<u>376,677</u>
OPEB obligation - ending	<u><u>\$ 361,493</u></u>

The entity’s annual OPEB cost data and net OPEB obligation was as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2015	\$ 111,579	98.3%	\$ 385,507
6/30/2016	\$ 111,545	107.9%	\$ 376,677
6/30/2017	\$ 111,698	113.6%	\$ 361,493

Funded Status – As of July 1, 2014 the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the District’s unfunded actuarial accrued liability (UAAL) was \$1,377,053. The annual payroll for active employees covered by the plan in the actuarial valuation for the 2016-2017 fiscal year was \$5,489,234 for a ratio of the UAAL to covered payroll of 22.9%.

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, such as assumptions about future terminations, morality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past experience and new estimates are made about the future.

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 plan members) an include the types of benefits provided at the time of each valuation and the historical pattern of sharing o 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 effect of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

12. OTHER POSTEMPLOYMENT BENEFITS: (continued)

In the July 1, 2014 actuarial valuation, the projected credit method was used. The actuarial assumptions included a rate of 4.2% investment return and annual healthcare cost trend rate of 5%. Both rates include a 3% salary increase per year. The assumed claim costs were determined from the fully insured premiums and underlying claim experience of OPEB plans and actuarial age adjustment factors. The dental claims were assumed to be equal to the dental premiums.

13. EARLY RETIREMENT PLAN:

The district maintains an early retirement plan, which allows those meeting certain qualifications, to retire early and receive 65% to 80% of their salary received during their last full year of employment in one lump sum. Payment will be made to the South Dakota Retirement Special Pay Plan on behalf of the employee. All employees reaching the retirement age factor prior to September 1 of the next year are eligible to submit, in writing, a binding intent to elect early retirement, effective on the date the retiring employee reaches the retirement age factor. All retiring employees will receive the balance of their contractual salary on their last day of employment the Huron School District. If the employee elects retirement during the summer months, payment will be made within 45 days from the time the employee notifies the superintendent, in writing. In the fiscal year 2017 four retiring employees received benefits. The amount paid for such benefits during the year was \$142,199.

***REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A***

HURON SCHOOL DISTRICT NO. 2-2
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u> <u>BUDGETARY</u> <u>BASIS</u>	<u>FINAL BUDGET-</u> <u>POSITIVE</u> <u>(NEGATIVE)</u>
REVENUES:				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 4,653,000	\$ 4,653,000	\$ 4,533,957	\$ (119,043)
Prior years' ad valorem taxes	55,000	55,000	82,447	27,447
Tax deed revenue	8,000	8,000	1,171	(6,829)
Utility taxes	420,000	420,000	425,729	5,729
Penalties and interest on taxes	15,000	15,000	15,263	263
<i>Revenue from Local Governmental Units</i>				
<i>Other Than LEAs:</i>				
Revenue in lieu of taxes	10,000	10,000	7,373	(2,627)
<i>Tuition and Fees:</i>				
Regular day school tuition	100,000	100,000	117,283	17,283
<i>Earnings on Investments and Deposits</i>	50,000	50,000	29,767	(20,233)
<i>Cocurricular Activities:</i>				
Admissions	80,000	80,000	79,133	(867)
Other pupil activity income	22,000	22,000	23,216	1,216
<i>Other Revenue from Local Sources:</i>				
Rentals	50,000	50,000	43,610	(6,390)
Contributions and donations	12,000	12,000	12,456	456
Services Provided Other LEAs	--	--	15,138	15,138
Charges for services	90,000	90,000	40,479	(49,521)
Other	148,000	148,000	155,313	7,313
<i>Revenue from Intermediate Sources:</i>				
<i>County Sources:</i>				
County apportionment	240,000	240,000	234,324	(5,676)
Revenue in Lieu of Taxes	3,000	3,000	--	(3,000)
<i>Revenue from State Sources:</i>				
<i>Grants-in-Aid:</i>				
Unrestricted grants-in-aid	9,848,000	9,848,000	10,237,553	389,553
Restricted grants-in-aid	1,000	1,000	662	(338)
<i>Tuition:</i>				
Regular	105,000	105,000	105,955	955
<i>Revenue from Federal Sources:</i>				
<i>Grants-in-Aid:</i>				
Restricted grants-in-aid received from federal government through the state	1,665,000	1,665,000	1,751,976	86,976
Other Federal Revenue	67,000	67,000	74,460	7,460
TOTAL REVENUE	17,642,000	17,642,000	17,987,265	345,265

The accompanying Notes to Required Supplementary Information are an integral part of these financial statements.

HURON SCHOOL DISTRICT NO. 2-2
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017
(CONTINUED)

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u> <u>BUDGETARY</u> <u>BASIS</u>	<u>FINAL BUDGET-</u> <u>POSITIVE</u> <u>(NEGATIVE)</u>
EXPENDITURES:				
<i>Instruction:</i>				
<i>Regular Programs:</i>				
Elementary	\$ 4,269,600	\$ 4,336,100	\$ 4,335,114	\$ 986
Middle/junior high	1,984,500	1,984,500	1,980,458	4,042
High school	2,747,800	2,772,800	2,756,776	16,024
Preschool services	--	4,000	3,610	390
<i>Special Programs:</i>				
Culturally different	820,900	820,900	802,944	17,956
Educationally deprived	1,135,000	1,135,000	923,954	211,046
<i>Support Services:</i>				
<i>Pupils:</i>				
Attendance and social work	--	174,000	173,237	763
Guidance	419,200	423,200	418,820	4,380
Health	94,100	98,100	98,038	62
Psychological	5,000	5,000	173	4,827
<i>Instructional Staff:</i>				
Improvement of instruction	366,700	383,200	372,209	10,991
Educational media	639,100	650,100	607,807	42,293
<i>General Administration:</i>				
Board of education	174,500	199,500	192,236	7,264
Executive administration	226,300	236,300	235,813	487
<i>School Administration:</i>				
Office of the principal	816,700	816,700	795,505	21,195
Other	325,200	325,200	323,752	1,448
<i>Business:</i>				
Fiscal services	379,900	379,900	363,600	16,300
Operation and maintenance of plant	2,021,400	2,200,400	2,178,730	21,670
Pupil transportation	713,500	713,500	687,092	26,408
Food services	50,000	73,000	72,641	359
<i>Central:</i>				
Staff	3,000	3,000	1,545	1,455
<i>Community Services:</i>				
Recreation	16,500	35,500	34,964	536
Custody and care of children	150,000	150,000	141,723	8,277
Nonpublic school	--	42,000	41,272	728
<i>Nonprogrammed Charges:</i>				
Payments to state - unemployment	5,000	5,000	--	5,000
Early retirement payments	160,000	160,000	--	160,000
<i>Cocurricular Activities:</i>				
Male activities	336,800	344,900	339,059	5,841
Female activities	315,700	319,800	299,237	20,563
Combined activities	267,600	271,600	246,534	25,066
TOTAL EXPENDITURES	18,444,000	19,063,200	18,426,843	636,357
<i>Excess of Revenue Over (Under) Expenditures</i>	(802,000)	(1,421,200)	(439,578)	981,622
OTHER FINANCING SOURCES:				
Transfers in	340,000	340,000	330,621	(9,379)
Sale of surplus property	25,000	25,000	9,107	(15,893)
Compensation for loss of capital assets	--	--	400	400
TOTAL OTHER FINANCING SOURCES	365,000	365,000	340,128	(24,872)
<i>Net Change in Fund Balances</i>	(437,000)	(1,056,200)	(99,450)	956,750
<i>FUND BALANCE, Beginning of Year</i>	2,673,990	2,673,990	2,673,990	--
<i>FUND BALANCE, End of Year</i>	\$ 2,236,990	\$ 1,617,790	\$ 2,574,540	\$ 956,750

The accompanying Notes to Required Supplementary Information are an integral part of these financial statements.

HURON SCHOOL DISTRICT NO. 2-2
BUDGETARY COMPARISON SCHEDULE – CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET-</u>
			<u>BUDGETARY</u>	<u>POSITIVE</u>
			<u>BASIS</u>	<u>(NEGATIVE)</u>
REVENUES:				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 3,328,000	\$ 3,328,000	\$ 3,314,776	\$ (13,224)
Prior years' ad valorem taxes	20,000	20,000	41,197	21,197
Tax deed revenue	--	--	65	65
Penalties and interest on taxes	5,000	5,000	9,150	4,150
<i>Earnings on Investments and Deposits</i>	--	--	19,780	19,780
<i>Other Revenue From Local Sources:</i>				
Contributions and donations	--	--	10,000	10,000
TOTAL REVENUES	3,353,000	3,353,000	3,394,968	41,968
EXPENDITURES:				
<i>Instruction:</i>				
<i>Regular Programs:</i>				
Elementary	315,000	316,000	315,501	499
Middle/junior high	193,000	193,000	192,416	584
High school	214,000	214,000	211,656	2,344
<i>Special Programs:</i>				
Programs for special education	4,000	4,000	1,800	2,200
<i>Instructional Staff:</i>				
Improvement of institution	2,000	2,000		--
Educational media	183,000	183,000	2,000	6,427
<i>General Administration:</i>				
Board of education	5,000	7,000	176,573	176
Executive administration	2,000	2,000	6,824	--
<i>School Administration:</i>				
Other	9,000	9,000	2,000	68
<i>Business:</i>				
Fiscal services	5,000	5,000	8,932	--
Facilities acquisition and construction	2,850,000	2,850,000	5,000	700,199
Operation and maintenance of plant	349,000	349,000	2,149,801	32,302
Pupil transportation	408,000	408,000	316,698	10,466
Food services	25,000	25,000	397,534	4
Internal services	15,000	15,000	24,996	--
			15,000	
<i>Debt Services</i>	1,274,000	1,274,000		8,292
<i>Cocurricular Activities:</i>				
Combined activities	50,000	94,000	1,265,708	52
TOTAL EXPENDITURES	5,903,000	5,950,000	93,948	763,613
<i>Excess of Revenue Over (Under) Expenditures</i>	(2,550,000)	(2,597,000)	5,186,387	805,581
			(1,791,419)	
OTHER FINANCING SOURCES:				
Transfers out	(300,000)	(300,000)	--	(19,780)
TOTAL OTHER FINANCING SOURCES	(300,000)	(300,000)	--	(339,560)
<i>Net Change in Fund Balances</i>	(2,850,000)	(2,897,000)	(319,780)	466,021
			(2,111,199)	
<i>FUND BALANCE - Beginning of Year</i>	3,955,221	3,955,221		--
<i>FUND BALANCE - End of Year</i>	\$ 1,105,221	\$ 1,058,221	3,955,221	\$ 466,021
			\$ 1,844,022	

The accompanying Notes to Required Supplementary Information are an integral part of these financial statements.

HURON SCHOOL DISTRICT NO. 2-2
BUDGETARY COMPARISON SCHEDULE – SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u> <u>BUDGETARY</u> <u>BASIS</u>	<u>FINAL BUDGET-</u> <u>POSITIVE</u> <u>(NEGATIVE)</u>
REVENUES:				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 1,378,000	\$ 1,378,000	\$ 1,480,989	\$ 102,989
Prior years' ad valorem taxes	10,000	10,000	15,967	5,967
Tax deed revenue	--	--	23	23
Penalties and interest on taxes	3,000	3,000	3,562	562
<i>Tuition and Fees:</i>				
Regular day school tuition	--	--	2,554	2,554
<i>Earnings on Investments and Deposits</i>				
	--	--	8,675	8,675
<i>Other Revenue from Local Sources:</i>				
Services provided other school districts	--	--	380	380
Charges for services	80,000	80,000	153,972	73,972
Other	2,000	2,000	681	(1,319)
<i>Revenue from Intermediate Sources:</i>				
<i>Revenue from State Sources:</i>				
<i>Grants-in-Aid:</i>				
Restricted grants-in-aid	1,830,000	1,830,000	1,740,939	(89,061)
<i>Revenue from Federal Sources:</i>				
<i>Grants-in-Aid:</i>				
Restricted grants-in-aid received from federal government through the state	626,000	626,000	669,394	43,394
TOTAL REVENUES	3,929,000	3,929,000	4,077,136	148,136
EXPENDITURES:				
<i>Instruction:</i>				
<i>Special Programs:</i>				
Programs for special education	2,843,800	2,952,800	2,862,390	90,410
<i>Support Services:</i>				
<i>Pupils:</i>				
Attendance and social work	29,800	29,800	26,841	2,959
Guidance	14,700	14,700	12,069	2,631
Health	96,800	96,800	95,542	1,258
Psychological	219,100	225,100	222,389	2,711
Speech pathology	351,100	460,100	459,412	688
Student therapy services	134,500	151,500	150,924	576
<i>Instructional Staff:</i>				
Improvement of instruction	22,000	22,000	2,031	19,969
<i>School Administration:</i>				
Office of principal	176,000	176,000	--	176,000
<i>Business:</i>				
Pupil transportation	86,200	86,200	--	86,200
<i>Special Education:</i>				
Administrative costs	--	174,000	173,952	48
Transportation costs	--	110,000	109,859	141
TOTAL EXPENDITURES	3,974,000	4,499,000	4,115,409	383,591
<i>Excess of Revenue Over (Under) Expenditures</i>	(45,000)	(570,000)	(38,273)	531,727
OTHER FINANCING USES:				
Transfers out	--	--	(8,675)	(8,675)
TOTAL OTHER FINANCING USES	--	--	(8,675)	(8,675)
<i>Net Change in Fund Balances</i>	(45,000)	(570,000)	(46,948)	523,052
<i>FUND BALANCE, Beginning of Year</i>	821,207	821,207	821,207	--
<i>FUND BALANCE, End of Year</i>	\$ 776,207	\$ 251,207	\$ 774,259	\$ 523,052

The accompanying Notes to Required Supplementary Information are an integral part of these financial statements.

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

1. BUDGETS AND BUDGETARY ACCOUNTING:

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

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

HURON SCHOOL DISTRICT NO. 2-2
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

2. USGAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES:

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, 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.

**HURON SCHOOL DISTRICT NO. 2-2
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2017**

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (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]
7/1/2008	--	Unit Credit	\$ 1,255,139	0.00%	\$ 5,489,234	22.90%
7/1/2011	--	Unit Credit	1,599,173	0.00%	4,844,183	32.20%
7/1/2014	--	Unit Credit	1,377,053	0.00%	10,560,892	13.00%

**HURON SCHOOL DISTRICT NO. 2-2
SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS
TO THE SOUTH DAKOTA RETIREMENT SYSTEM**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 878,314	\$ 795,497	\$ 743,368
Contributions in relation to the contractually required contribution	<u>878,314</u>	<u>795,497</u>	<u>743,368</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 14,618,234	\$ 13,258,233	\$ 12,389,467
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%

HURON SCHOOL DISTRICT NO. 2-2
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (ASSET)
OF THE SOUTH DAKOTA RETIREMENT SYSTEM

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.6973059%	0.6786550%	0.6877786%
District's proportionate share of net pension liability (asset)	\$ 2,355,431	\$(2,878,370)	\$ (4,955,164)
District's covered-employee payroll	\$13,258,233	\$12,389,436	\$ 12,027,350
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	17.77%	-23.23%	-41.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	96.89%	104.10%	107.29%

SUPPLEMENTARY INFORMATION

**HURON SCHOOL DISTRICT NO. 2-2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

<i>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</i>	<i>FEDERAL CFDA NUMBER</i>	<i>PASS-THROUGH ENTITY IDENTIFYING NUMBER</i>	<i>PASSED THROUGH TO SUBRECIPIENTS</i>	<i>FEDERAL EXPENDITURES</i>
<i>US Department of Agriculture:</i>				
<i>Pass-Through the SD Department of Education</i>				
<i>Child nutrition cluster:</i>				
School Breakfast Program (Note 3)	10.553	N/A		\$ 187,311
National School Lunch Program (Note 3)	10.555	N/A		754,472
National School Lunch Program - commodities	10.555	N/A		109,344
Summer Food Service Program for Children	10.559	N/A		51,224
<i>Total for Child Nutrition Cluster</i>				<u>1,102,351</u>
<i>Other Programs:</i>				
Team Nutrition Grants	10.574	N/A		552
Fresh Fruit and Vegetable Program	10.582	N/A		72,641
<i>Total for Other Programs</i>				<u>73,193</u>
<i>Total US Department of Agriculture</i>				<u>1,175,544</u>
<i>General Services Administration:</i>				
<i>Pass-Through the SD Federal Property Agency:</i>				
Donation of Federal Surplus Personal Property (Note 4)	39.003	N/A		16,354
<i>Total General Services Administration</i>				<u>16,354</u>
<i>US Department of Education:</i>				
<i>Pass-Through the SD Department of Education:</i>				
<i>Early Intervention Services (IDEA) Cluster: Special education - grants to states (Note 2)</i>				
	84.181	H181A150091		1,312
<i>Total for Early Intervention Services (IDEA) Cluster</i>				<u>1,312</u>
<i>Other Programs:</i>				
Migrant education - state grant program	84.011	N/A		278,619
Career and technical education	84.048	VO48A150041		40,164
Title I grants to local educational agencies	84.010	N/A		873,424
Twenty-First Century Community Learning Centers	84.287	N/A		142,639
Rural Education	84.358	N/A		34,709
English language acquisition grants (Title III)	84.365	S365A150041		138,728
Improving teacher quality state grants	84.367	N/A		170,500
<i>Total for Department of Education Other Programs</i>				<u>1,678,783</u>
<i>Special Education Cluster:</i>				
Special education - grants to states	84.027	H027A150091		657,449
Special education - preschool grants	84.173	H173A150091		10,633
<i>Total for Special Education Cluster</i>				<u>668,082</u>
<i>Total US Department of Education</i>				<u>2,348,177</u>
<i>Department of Health and Human Service:</i>				
<i>Pass-Through Luthern Social Services Of South Dakota:</i>				
Refugee and Entrant Assistance - Discretionary Grants	93.576	90ZE0195	74,460	74,460
<i>Total Department of Health and Human Service</i>				<u>74,460</u>
<i>GRAND TOTAL</i>			<u>\$ 74,460</u>	<u>\$ 3,614,535</u>

HURON SCHOOL DISTRICT NO. 2-2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(CONTINUED)

Note 1: Basis of Presentation

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

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The School District has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance

Note 3: Federal Reimbursement

Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 4: Federal Surplus Property

The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the School District. (Original acquisition cost is provided by Federal Surplus Property. It is not what the school actually paid for the item.)

***HURON SCHOOL DISTRICT NO. 2-2
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2017***

Board Members:

**Tim Van Berkum - President
David Wheeler - Vice President
Garret Bischoff
Shelly Siemonsma
Craig Lee**

Superintendent:

Terry Nebelsick

Business Manager:

Kelly Christopherson