

HOWARD SCHOOL DISTRICT NO. 48-3
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2016

HOWARD SCHOOL DISTRICT NO. 48-3
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2016

Board Members:

Rick Olson - President
Larry Calmus - Vice President
Rebecca Connor
Kim Lewis
Julie Schwader
Dan Dawson
Kelli Koepsell

Superintendent:

Mike Cullen

Business Manager:

Marcia Sherman

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**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
Howard School District No. 48-3
Miner County, South Dakota**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Howard School District No. 48-3, Miner County, South Dakota, as of and for the year ended June 30, 2016, which collectively comprise Howard School District's basic financial statements and have issued our report thereon dated January 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Howard School District's internal control over financial reporting (internal control) to determine the auditing 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 Howard 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 entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 Howard School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Handwritten signature in cursive script, appearing to read "CLO Prof LHC".

Huron, South Dakota
January 26, 2017

**HOWARD SCHOOL DISTRICT NO. 48-3
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016**

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit report contained no written audit comments.

SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

Current Federal Audit Findings:

There are no written current federal compliance audit findings to report.

Current Other Audit Findings:

There are no written current other audit findings to report.



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INDEPENDENT AUDITOR'S REPORT

School Board
Howard School District No. 48-3
Howard, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Howard School District No. 48-3, Howard, South Dakota, as of June 30, 2016 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Howard School District’s basic financial statements, as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Howard School District No. 48-3 as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A), the budgetary comparison schedules, the schedule of proportionate share of the net pension liability (assets), schedule of school district contributions, and the schedule of funding progress 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2017 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
January 26, 2017

**HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

This section of Howard School District No. 48-3's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended on June 30, 2016. Please read it in conjunction with the School's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the School's revenues of \$5,017,733 generated from taxes and other revenues of the governmental and business-type programs were \$524,985 more than the \$4,492,748 in governmental and business-type program expenditures. Mainly due to the recording of a net pension asset and revenue.
- The total cost of the School's programs increased by 12% mainly due to wage increases.
- 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 funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities that the School operates like businesses. The proprietary funds operated by the School is the Food Service Operation (Fund 51), and After School program 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.

**HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

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.

Figure A-1

Major Features of Howard 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

*HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016*

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 Other Enterprise Funds (Drivers Ed, and FAST program) 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 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.

**HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

- **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 FAST programs are 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
Howard School District No. 48-3
Statement of Net Position

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>		<i>Percentage</i>
	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>Change</i>
							<i>2015-2016</i>
Current and Other Assets	\$ 7,385,477	\$ 6,254,531	\$ 31,609	\$ 43,931	\$ 7,417,086	\$ 6,298,462	-15.08%
Capital Assets (Net of Depreciation)	5,860,043	6,600,160	10,144	8,343	5,870,187	6,608,503	12.58%
Total Assets	13,245,520	12,854,691	41,753	52,274	13,287,273	12,906,965	-2.86%
Pension Related Deferred Outflows	745,669	922,060	--	--	745,669	922,060	23.66%
Total Deferred Outflows of Resources	745,669	922,060	--	--	745,669	922,060	23.66%
Long-Term Liabilities Outstanding	4,660,137	4,427,217	--	--	4,660,137	4,427,217	-5.00%
Other Liabilities	835,736	316,650	3,668	6,004	839,404	322,654	-61.56%
Total Liabilities	5,495,873	4,743,867	3,668	6,004	5,499,541	4,749,871	-13.63%
Taxes Levied for Future Period	1,476,943	1,756,013	--	--	1,476,943	1,756,013	18.90%
Pension Related Deferred Inflows	978,021	719,719	--	--	978,021	719,719	-26.41%
Total Deferred Inflows of Resources	2,454,964	2,475,732	--	--	2,454,964	2,475,732	0.85%
Net Position							
Net Investment in Capital Assets	1,199,906	2,172,943	10,144	8,343	1,210,050	2,181,286	80.26%
Restricted	3,768,728	3,434,362	--	--	3,768,728	3,434,362	-8.87%
Unrestricted	1,071,718	949,847	27,941	37,927	1,099,659	987,774	-10.17%
Total Net Position	6,040,352	6,557,152	38,085	46,270	6,078,437	6,603,422	8.64%
Beginning Net Position	5,368,758	6,040,352	32,748	38,085	5,401,506	6,078,437	12.53%
Increase (Decrease) in Net Position	\$ 671,594	\$ 516,800	\$ 5,337	\$ 8,185	\$ 676,931	\$ 524,985	
Percentage of Increase (Decrease) in Net Position	12.51%	8.56%	16.30%	21.49%	12.53%	8.64%	

The District's combined net position of approximately \$6.6 million is approximately \$525,000 or 8.64% more than on June 30, 2015.

**HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

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, GOB bonds QZAB bonds, and QSCB bonds, have been reported in this manner on the Statement of Net Position. The difference between the School's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is its net position.

Changes in Net Position

The District's revenues totaled \$5,017,733. (See Table A-4.) This was an approximately 7% increase. Approximately 77% of the District's revenue comes from property and other taxes, with another 11% from state aid. (See Table A-2.)

Table A-2
Howard School District No. 48-3
Sources of Revenues
Fiscal Year 2015-2016

Taxes	\$ 3,896,628	77.66%
State sources	571,810	11.40%
Operating grants & contributions	361,957	7.21%
Charges for services	152,329	3.04%
Other revenues	27,874	0.56%
Unrestricted investment earnings	7,135	0.13%
<i>Total Revenue</i>	\$ 5,017,733	100.00%

Total costs of all programs and service increased by approximately 12%. The District's expenses totaled \$4,492,748. (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, driver's education and FAST program. (See Table A-3.)

Table A-3
Howard School District No. 48-3
Statement of Expenditures
Fiscal Year 2015-2016

Instruction	\$ 2,491,419	55.45%
Support services	1,402,729	31.22%
Community services	359	0.01%
Interest on long-term debt	157,968	3.52%
Cocurricular activities	259,606	5.78%
Food service	170,968	3.81%
FAST program	5,087	0.11%
Drivers education	4,612	0.10%
<i>Total Expenditures</i>	\$ 4,492,748	100.00%

**HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

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
Howard School District 48-3
Changes in Net Position

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>		<i>Total Percentage Change 2015-2016</i>
	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	
<i>Revenues</i>							
<i>Program Revenues:</i>							
Charges for services	\$ 42,441	\$ 33,526	\$ 116,272	\$ 118,803	\$ 158,713	\$ 152,329	-4.02%
Operating grants and contributions	325,137	292,800	65,721	69,157	390,858	361,957	-7.39%
<i>General Revenues:</i>							
Taxes	3,486,167	3,896,628	--	--	3,486,167	3,896,628	11.77%
Revenue state sources	609,208	571,810	--	--	609,208	571,810	-6.14%
Unrestricted investment earnings	7,319	7,091	31	44	7,350	7,135	-2.93%
Other general revenues	36,554	27,026	--	848	36,554	27,874	-23.75%
<i>Total Revenues</i>	<u>4,506,826</u>	<u>4,828,881</u>	<u>182,024</u>	<u>188,852</u>	<u>4,688,850</u>	<u>5,017,733</u>	7.01%
<i>Expenses</i>							
Instruction	2,030,268	2,491,419	--	--	2,030,268	2,491,419	22.71%
Support services	1,435,138	1,402,729	--	--	1,435,138	1,402,729	-2.26%
Community services	316	359	--	--	316	359	13.61%
Interest on long-term debt	160,277	157,968	--	--	160,277	157,968	-1.44%
Cocurricular activities	209,233	259,606	--	--	209,233	259,606	24.08%
Food service	--	--	165,714	170,968	165,714	170,968	3.17%
Other enterprise activity	--	--	10,973	9,699	10,973	9,699	-11.61%
<i>Total Expenses</i>	<u>3,835,232</u>	<u>4,312,081</u>	<u>176,687</u>	<u>180,667</u>	<u>4,011,919</u>	<u>4,492,748</u>	11.99%
<i>Increase (Decrease) in Net Position</i>	<u>671,594</u>	<u>516,800</u>	<u>5,337</u>	<u>8,185</u>	<u>676,931</u>	<u>524,985</u>	-22.45%
<i>Beginning Net Position</i>	<u>5,368,758</u>	<u>6,040,352</u>	<u>32,748</u>	<u>38,085</u>	<u>5,401,506</u>	<u>6,078,437</u>	12.53%
<i>Ending Net Position</i>	<u>\$ 6,040,352</u>	<u>\$ 6,557,152</u>	<u>\$ 38,085</u>	<u>\$ 46,270</u>	<u>\$ 6,078,437</u>	<u>\$ 6,603,422</u>	8.64%

GOVERNMENTAL ACTIVITIES

Revenues for the School's governmental activities increased primarily due 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. Net position was restated due to a change in reporting of Pension accumulated in the South Dakota Retirement System as per GASB 68.

**HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

BUSINESS-TYPE ACTIVITIES

Net position of the School's business-type activities increased approximately \$8,185, mainly due to the controlling of expenses.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Overall the governmental funds have decreased approximately \$549,000 in net position over last year. The main cause was completion of the HVAC project.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the School Board revised the School budget several times. These amendments fall into two 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 2016, the School had invested \$6,600,160 (net of depreciation) in a broad range of capital assets, including, land, buildings, various machinery and equipment. (See Table A-5.) Total capital outlay expenditures were \$1,222,122.

Table A-5
HOWARD 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>
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015-2016</u>	<u>2015-2016</u>
Land	\$ 19,265	\$ 19,265	\$ --	\$ --	\$ --	0.00%
Buildings	4,695,731	5,423,433	--	--	727,702	13.42%
Improvements other than buildings	584,141	540,171	--	--	(43,970)	-8.14%
Machinery and equipment	560,906	617,291	10,144	8,343	54,584	8.84%
<i>Total Capital Assets (Net)</i>	<u>\$ 5,860,043</u>	<u>\$ 6,600,160</u>	<u>\$ 10,144</u>	<u>\$ 8,343</u>	<u>\$ 738,316</u>	11.19%

**HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

LONG-TERM DEBT

At year-end the School had \$4,427,217 in long term obligations. This balance includes Qualified Zone Construction Bonds payable and accrued sick leave payable. See individual balances as shown on Table A-6 below:

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

	<i>Governmental Activities</i>		<i>Total Dollar Change</i>	<i>Total Percentage Change</i>
	<u>2015</u>	<u>2016</u>	<u>2015-2016</u>	<u>2015-2016</u>
QSCB Bond	\$ 1,295,000	\$ 1,295,000	\$ -	0.00%
QZAB Bond	366,667	333,334	(33,333)	-9.09%
GOB -2015	2,010,000	1,895,000	(115,000)	-5.72%
Unamortized premium	35,532	33,163	(2,369)	-6.67%
GOB -2011	705,000	610,000	(95,000)	-13.48%
OPEB	199,138	218,720	19,582	9.83%
Compensated absences	48,800	42,000	(6,800)	-13.93%
<i>Total Outstanding Debt and Obligations</i>	<u>\$ 4,660,137</u>	<u>\$ 4,427,217</u>	<u>\$ (232,920)</u>	<u>-5.00%</u>

The School is liable for the accrued sick leave payable to the various employees who have five consecutive years or more of employment at the School District.

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 FY16, the state aid formula for the current year ensures that property taxes plus state aid will equal \$4,876.

The School's enrollment for the last two years has been as follows:

<u>YEAR</u>	<u>ADM</u>	<i>Percent (Decrease) in ADM</i>
2016	357	-1.65%
2015	363	-2.16%

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 Howard School District's Business Office, 500 N. Section Line St., Howard, SD 57349.

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF NET POSITION – GOVERNMENT-WIDE
JUNE 30, 2016

	<i>PRIMARY GOVERNMENT</i>		<i>TOTAL</i>
	<i>GOVERNMENTAL ACTIVITIES</i>	<i>BUSINESS-TYPE ACTIVITIES</i>	
ASSETS:			
Cash and cash equivalents	\$ 2,347,035	\$ 39,023	\$ 2,386,058
Investments	768,682	–	768,682
Taxes receivable	1,778,797	–	1,778,797
Inventories	3,847	1,881	5,728
Other assets	436,248	3,027	439,275
Restricted assets:			
Cash and cash equivalents	432,149	–	432,149
Net pension asset	487,773	–	487,773
Capital assets:			
Land	19,265	–	19,265
Other capital assets, net of depreciation	6,580,895	8,343	6,589,238
TOTAL ASSETS	12,854,691	52,274	12,906,965
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	922,060	–	922,060
TOTAL DEFERRED OUTFLOWS OF RESOURCES	922,060	–	922,060
LIABILITIES:			
Accounts payable	37,393	–	37,393
Other current liabilities	279,257	2,415	281,672
Unearned revenue	–	3,589	3,589
Noncurrent liabilities:			
Due within one year	252,833	–	252,833
Due in more than one year	4,174,384	–	4,174,384
TOTAL LIABILITIES	4,743,867	6,004	4,749,871
DEFERRED INFLOWS OF RESOURCES			
Taxes levied for future period	1,756,013	–	1,756,013
Pension related deferred inflows	719,719	–	719,719
TOTAL DEFERRED INFLOWS OF RESOURCES	2,475,732	–	2,475,732
NET POSITION:			
Net Investment in Capital Assets	2,172,943	8,343	2,181,286
Restricted for:			
Capital Outlay	1,257,861	–	1,257,861
Special Education	947,043	–	947,043
Pension	107,195	–	107,195
Debt Service	432,149	–	432,149
SDRS Pension Purposes	690,114	–	690,114
Unrestricted	949,847	37,927	987,774
TOTAL NET POSITION	\$ 6,557,152	\$ 46,270	\$ 6,603,422

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

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF ACTIVITIES – GOVERNMENT-WIDE
FOR THE YEAR ENDED JUNE 30, 2016

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	
<i>Primary Government:</i>							
<i>Governmental Activities:</i>							
Instruction	\$ 2,491,419	\$ --	\$ 286,609	\$ --	\$ (2,204,810)	\$ --	\$ (2,204,810)
Support services	1,402,729	6,985	--	--	(1,395,744)	--	(1,395,744)
Community services	359	--	--	--	(359)	--	(359)
Interest on long-term debt *	157,968	--	--	--	(157,968)	--	(157,968)
Cocurricular activities	259,606	26,541	6,191	--	(226,874)	--	(226,874)
<i>Total Governmental Activities</i>	<u>4,312,081</u>	<u>33,526</u>	<u>292,800</u>	<u>--</u>	<u>(3,985,755)</u>	<u>--</u>	<u>(3,985,755)</u>
<i>Business-Type Activities:</i>							
Food service	170,968	108,888	69,157	--	--	7,077	7,077
FAST program	5,087	5,375	--	--	--	288	288
Drivers education	4,612	4,540	--	--	--	(72)	(72)
<i>Total Business-Type Activities</i>	<u>180,667</u>	<u>118,803</u>	<u>69,157</u>	<u>--</u>	<u>--</u>	<u>7,293</u>	<u>7,293</u>
<i>Total Primary Government</i>	<u>\$ 4,492,748</u>	<u>\$ 152,329</u>	<u>\$ 361,957</u>	<u>\$ --</u>	<u>(3,985,755)</u>	<u>7,293</u>	<u>(3,978,462)</u>
<i>General Revenues:</i>							
<i>Taxes:</i>							
					3,544,766	--	3,544,766
					351,862	--	351,862
<i>Revenue from State Sources:</i>							
					571,810	--	571,810
					7,091	44	7,135
					27,026	848	27,874
					<u>4,502,555</u>	<u>892</u>	<u>4,503,447</u>
					516,800	8,185	524,985
					<u>6,040,352</u>	<u>38,085</u>	<u>6,078,437</u>
					<u>\$ 6,557,152</u>	<u>\$ 46,270</u>	<u>\$ 6,603,422</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.

HOWARD SCHOOL DISTRICT NO. 48-3
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>GENERAL FUND</u>	<u>CAPITAL OUTLAY FUND</u>	<u>SPECIAL EDUCATION FUND</u>	<u>PENSION FUND</u>	<u>BOND REDEMPTION FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS:						
Cash and cash equivalents	\$ 35,703	\$ 1,228,821	\$ 975,316	\$ 107,195	\$ --	\$ 2,347,035
Investments	768,682	--	--	--	--	768,682
Taxes receivable--current	707,352	652,386	348,420	47,855	--	1,756,013
Taxes receivable--delinquent	15,664	3,989	2,604	527	--	22,784
Accounts receivable, net	50	--	--	--	--	50
Due from other fund	--	--	--	--	--	--
Due from other governments	370,089	35,197	30,912	--	--	436,198
Inventory of supplies	1,534	2,313	--	--	--	3,847
Restricted cash and cash equivalents	--	--	--	--	432,149	432,149
TOTAL ASSETS	\$ 1,899,074	\$ 1,922,706	\$ 1,357,252	\$ 155,577	\$ 432,149	\$ 5,766,758
LIABILITIES AND FUND BALANCES:						
<i>Liabilities:</i>						
Accounts payable	\$ 6,751	\$ 6,157	\$ 24,485	\$ --	\$ --	\$ 37,393
Contracts payable	176,632	--	27,613	--	--	204,245
Payroll deductions and withholding and employer matching payable	67,925	--	7,087	--	--	75,012
Total Liabilities	251,308	6,157	59,185	--	--	316,650
<i>Deferred Inflows of Resources:</i>						
Taxes Levied for a Future Period	707,352	652,386	348,420	47,855	--	1,756,013
Unavailable Revenue-Property Taxes	15,664	3,989	2,604	527	--	22,784
Unavailable Revenue-Utility Taxes	63,077	--	--	--	--	63,077
Total Deferred Inflows of Resources	786,093	656,375	351,024	48,382	--	1,841,874
<i>Fund Balances:</i>						
<i>Nonspendable:</i>						
Inventory	1,534	2,313	--	--	--	3,847
<i>Restricted:</i>						
Capital outlay	--	1,257,861	--	--	--	1,257,861
Special education	--	--	947,043	--	--	947,043
Pension	--	--	--	107,195	--	107,195
Bond redemption	--	--	--	--	432,149	432,149
<i>Assigned to:</i>						
Next year's budget	532,019	--	--	--	--	532,019
Unassigned	328,120	--	--	--	--	328,120
Total Fund Balances	861,673	1,260,174	947,043	107,195	432,149	3,608,234
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,899,074	\$ 1,922,706	\$ 1,357,252	\$ 155,577	\$ 432,149	\$ 5,766,758

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

**HOWARD SCHOOL DISTRICT NO. 48-3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION – GOVERNMENTAL FUNDS
JUNE 30, 2016**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 3,608,234**

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

Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	487,773
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,600,160
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	922,060
Long-term liabilities, including bonds payable and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds.	(4,427,217)
Assets such as taxes receivable (delinquent) are not available to pay for the current period expenditures, and therefore are deferred in the funds.	85,861
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>(719,719)</u>
<i>Net Position-Government Funds</i>	<u><u>\$ 6,557,152</u></u>

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

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>GENERAL FUND</u>	<u>CAPITAL OUTLAY FUND</u>	<u>SPECIAL EDUCATION FUND</u>	<u>PENSION FUND</u>	<u>BOND REDEMPTION FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:							
<i>Revenue from Local Sources:</i>							
<i>Taxes:</i>							
Ad valorem taxes	\$ 1,439,745	\$ 1,245,220	\$ 719,001	\$ 120,028	\$ --	\$ --	\$ 3,523,994
Prior years' ad valorem taxes	929	257	146	34	--	--	1,366
Utility taxes	351,862	--	--	--	--	--	351,862
Penalties and interest on taxes	1,910	1,321	826	163	--	--	4,220
<i>Revenue from Local Government:</i>							
Revenue in lieu of taxes	1,578	--	--	--	--	--	1,578
Earnings on Investments and Deposits	2,227	1,938	1,685	225	827	189	7,091
<i>Cocurricular Activities:</i>							
Admissions	24,352	--	--	--	--	--	24,352
Other pupil activity income	2,189	--	--	--	--	--	2,189
<i>Other Revenue from Local Sources:</i>							
Rentals	3,975	--	--	--	--	--	3,975
Contributions and donations	191	6,000	--	--	--	--	6,191
Charges for services	4,441	--	2,544	--	--	--	6,985
Other	2,529	--	--	--	--	--	2,529
<i>Revenue from Intermediate Sources:</i>							
<i>County Sources:</i>							
County apportionment	16,438	--	--	--	--	--	16,438
Revenue in lieu of taxes	1,810	--	--	--	--	--	1,810
<i>Revenue from State Sources:</i>							
<i>Grants-in-Aid:</i>							
Unrestricted grants-in-aid	571,810	--	--	--	--	--	571,810
Other	1,743	--	--	--	--	--	1,743
<i>Other State Revenue</i>							
<i>Revenue from Federal Sources:</i>							
<i>Grants-in-Aid:</i>							
Unrestricted grants-in-aid received from federal government through the state	696	--	--	--	--	--	696
Restricted grants-in-aid received from federal government through the state	97,867	35,196	76,411	--	--	--	209,474
Other Federal Revenue	633	74,759	--	--	--	--	75,392
TOTAL REVENUES	\$ 2,526,925	\$ 1,364,691	\$ 800,613	\$ 120,450	\$ 827	\$ 189	\$ 4,813,695

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

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

	<u>GENERAL FUND</u>	<u>CAPITAL OUTLAY FUND</u>	<u>SPECIAL EDUCATION FUND</u>	<u>PENSION FUND</u>	<u>BOND REDEMPTION FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
EXPENDITURES:							
<i>Instruction:</i>							
<i>Regular Programs:</i>							
Elementary	\$ 730,002	\$ 91,715	\$ --	\$ 28,200	\$ --	\$ --	\$ 849,917
Middle school	197,098	64,319	--	9,791	--	--	271,208
High school	531,607	--	--	22,300	--	--	553,907
<i>Special Programs:</i>							
Programs for special education	--	--	441,697	--	--	--	441,697
Educationally Deprived	76,091	449	--	674	--	--	77,214
<i>Support Services:</i>							
<i>Pupils:</i>							
Guidance	52,896	--	--	2,584	--	--	55,480
Health	1,604	--	--	--	--	--	1,604
Psychological	--	--	23,993	--	--	--	23,993
Speech pathology	--	--	61,967	--	--	--	61,967
Student therapy services	--	--	17,906	--	--	--	17,906
<i>Instructional Staff:</i>							
Improvement of instruction	5,512	--	--	--	--	--	5,512
Educational media	98,676	7,351	--	4,382	--	--	110,409
<i>General Administration:</i>							
Board of education	36,499	--	--	--	--	--	36,499
Executive administration	70,297	--	--	2,542	--	--	72,839
<i>School Administration:</i>							
Office of the principal	237,090	--	--	10,905	--	--	247,995
<i>Business:</i>							
Fiscal services	94,690	6,683	--	3,990	--	--	105,363
Facilities acquisition and construction	--	--	--	6,555	--	--	6,555
Operation and maintenance of plant	244,339	105,009	--	2,100	--	--	351,448
Pupil transportation	118,294	30,389	--	3,052	--	--	151,735
<i>Central:</i>							
Staff	605	--	--	--	--	--	605
<i>Special Education:</i>							
Administrative costs	--	--	19,449	--	--	--	19,449
Transportation costs	--	--	804	--	--	--	804
Other	--	--	94,649	--	--	--	94,649
<i>Debt Services:</i>							
	--	403,670	--	--	--	--	403,670
<i>Community Services:</i>							
Other	359	--	--	--	--	--	359

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

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

	<u>GENERAL FUND</u>	<u>CAPITAL OUTLAY FUND</u>	<u>SPECIAL EDUCATION FUND</u>	<u>PENSION FUND</u>	<u>BOND REDEMPTION FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
EXPENDITURES:							
<i>Cocurricular Activities:</i>							
Transportation	\$ 13,117	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 13,117
Combined activities	161,385	1,686	--	4,618	--	--	167,689
Capital outlay	--	153,131	--	--	--	1,068,991	1,222,122
TOTAL EXPENDITURES:	<u>2,670,161</u>	<u>864,402</u>	<u>660,465</u>	<u>101,693</u>	<u>--</u>	<u>1,068,991</u>	<u>5,365,712</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(143,236)</u>	<u>500,289</u>	<u>140,148</u>	<u>18,757</u>	<u>827</u>	<u>(1,068,802)</u>	<u>(552,017)</u>
OTHER FINANCING SOURCES (USES):							
Transfers in	3,848	--	--	--	85,614	203,990	293,452
Transfers out	--	(291,542)	(1,685)	(225)	--	--	(293,452)
Sales of surplus property	431	--	--	--	--	--	431
Compensation for loss of General Capital Assets	2,152	--	--	--	--	--	2,152
TOTAL OTHER FINANCING SOURCES (USES)	<u>6,431</u>	<u>(291,542)</u>	<u>(1,685)</u>	<u>(225)</u>	<u>85,614</u>	<u>203,990</u>	<u>2,583</u>
<i>Net Change in Fund Balances</i>	(136,805)	208,747	138,463	18,532	86,441	(864,812)	(549,434)
<i>FUND BALANCE - Beginning of Year</i>	998,478	1,051,427	808,580	88,663	345,708	864,812	4,157,668
<i>FUND BALANCE - End of Year</i>	<u>\$ 861,673</u>	<u>\$ 1,260,174</u>	<u>\$ 947,043</u>	<u>\$ 107,195</u>	<u>\$ 432,149</u>	<u>\$ --</u>	<u>\$ 3,608,234</u>

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

HOWARD SCHOOL DISTRICT NO. 48-3
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES TO THE GOVERNMENT-WIDE STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (549,434)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

Capital Outlays	\$	1,222,122	
Depreciation Expense		(363,873)	
Net			858,249

In the statement of activities, net gains and (losses) (\$115,549) on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds \$2,583 from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized. (+gains, -losses, -proceeds=amount) (118,132)

Payment of principal on long-term debt is an expenditure in the government funds but the payment reduces long-term liabilities in the statement of assets. 245,702

In both the government-wide and fund financial statements revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the 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". 15,186

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.

Sick Leave		6,800	
Other postemployment benefits		(19,582)	
			(12,782)

Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds. 78,011

Change in Net Position of Governmental Activities \$ 516,800

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

**HOWARD SCHOOL DISTRICT NO. 48-3
BALANCE SHEET – PROPRIETARY FUND
JUNE 30, 2016**

	<i>ENTERPRISE FUND</i>		
	<i>FOOD SERVICE FUND</i>	<i>OTHER FUND</i>	<i>TOTAL</i>
ASSETS:			
<i>Current Assets:</i>			
Cash and cash equivalents	\$ 12,777	\$ 26,246	\$ 39,023
Accounts receivable	3,027	--	3,027
Inventory of stores purchased for resale	1,645	--	1,645
Inventory of donated foods	236	--	236
<i>Total Current Assets</i>	17,685	26,246	43,931
 <i>Capital Assets:</i>			
Machinery and equipment	44,478	--	44,478
Accumulated depreciation	(36,135)	--	(36,135)
<i>Total Noncurrent Assets</i>	8,343	--	8,343
TOTAL ASSETS	\$ 26,028	\$ 26,246	\$ 52,274
 LIABILITIES AND NET POSITION:			
<i>Liabilities:</i>			
<i>Current Liabilities:</i>			
Payroll deductions and withholdings and employer matching payable	\$ 2,415	\$ --	\$ 2,415
Unearned revenue	3,589	--	3,589
<i>Total Current Liabilities</i>	6,004	--	6,004
 <i>Net Position:</i>			
Invested in capital assets	8,343	--	8,343
Unrestricted	11,681	26,246	37,927
<i>Total Net Position</i>	20,024	26,246	46,270
TOTAL LIABILITIES AND NET POSITION	\$ 26,028	\$ 26,246	\$ 52,274

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

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
JUNE 30, 2016

	<i>ENTERPRISE FUND</i>		
	<i>FOOD SERVICE</i>	<i>OTHER</i>	<i>TOTAL</i>
	<i>FUND</i>	<i>FUND</i>	
OPERATING REVENUE:			
<i>Sales:</i>			
To pupils	\$ 92,322	\$ –	\$ 92,322
To adults	10,376	–	10,376
Ala carte	5,626	–	5,626
Other charges for goods and services	564	9,915	10,479
<i>Total Operating Revenue</i>	108,888	9,915	118,803
OPERATING EXPENSE:			
<i>Food Service:</i>			
Salaries	67,989	8,236	76,225
Employee benefits	19,928	660	20,588
Purchased services	563	–	563
Supplies	2,378	803	3,181
Cost of sales - purchased food	64,464	–	64,464
Cost of sales - donated food	13,745	–	13,745
Miscellaneous	100	–	100
Depreciation - local funds	1,801	–	1,801
<i>Total Operating Expenses</i>	170,968	9,699	180,667
<i>Operating Income (Loss)</i>	(62,080)	216	(61,864)
NONOPERATING REVENUES:			
<i>Investment Earnings</i>	–	44	44
<i>Other Local Revenue</i>	10	838	848
<i>State Sources:</i>			
Cash reimbursements	1,041	–	1,041
<i>Federal Sources:</i>			
Cash reimbursements	55,599	–	55,599
Donated food	12,517	–	12,517
<i>Total Nonoperating Revenue</i>	69,167	882	70,049
<i>Change in Net Position</i>	7,087	1,098	8,185
<i>NET POSITION - Beginning of Year</i>	12,937	25,148	38,085
<i>NET POSITION - End of Year</i>	\$ 20,024	\$ 26,246	\$ 46,270

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

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<i>ENTERPRISE FUNDS</i>		
	<i>FOOD SERVICE FUND</i>	<i>OTHER FUND</i>	<i>TOTAL</i>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 110,431	\$ 9,915	\$ 120,346
Payments to suppliers	(67,592)	(980)	(68,572)
Payments to employees	(87,462)	(8,896)	(96,358)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	(44,623)	39	(44,584)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Other Local Revenue	10	838	848
Cash reimbursements - state	1,041	-	1,041
Cash reimbursements - federal	55,599	-	55,599
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	56,650	838	57,488
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Cash received for interest	-	44	44
NET CASH PROVIDED BY RELATED FINANCING ACTIVITIES	-	44	44
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,027	921	12,948
CASH AND CASH EQUIVALENTS, Beginning of Year	750	25,325	26,075
CASH AND CASH EQUIVALENTS, End of Year	\$ 12,777	\$ 26,246	\$ 39,023
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (62,080)	\$ 216	\$ (61,864)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	1,801	-	1,801
Noncash cost of sales - commodities	13,746	-	13,746
Change in Assets and Liabilities:			
Accounts receivable	(515)	-	(515)
Inventories	(88)	-	(88)
Accounts and other payables	455	(177)	278
Unearned revenue	2,058	-	2,058
Net Cash Provided (Used) by Operating Activities	(44,623)	39	(44,584)
NONCASH, INVESTING CAPITAL, AND FINANCING ACTIVITIES:			
Value of Commodities Received	\$ 12,517	\$ -	\$ 12,517

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

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF FIDUCIARY NET POSITION – PROPRIETARY FUNDS
JUNE 30, 2016

	<i>PRIVATE PURPOSE TRUST FUND</i>	<i>AGENCY FUNDS</i>
<i>ASSETS:</i>		
Cash and cash equivalents	\$ 71,770	\$ 79,749
TOTAL ASSETS	\$ 71,770	\$ 79,749
<i>LIABILITIES:</i>		
Due to other fund	\$ --	\$ 2,000
Amounts held for others	--	77,749
TOTAL LIABILITIES	--	79,749
<i>NET POSITION:</i>		
Held in trust for school scholarship	71,770	--
TOTAL LIABILITIES AND NET POSITION	\$ 71,770	\$ 79,749

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

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>PRIVATE PURPOSE TRUST FUND</u>
ADDITIONS:	
Contributions and Donations	\$ 50,000
Earnings from Deposits and Investments	<u>2,688</u>
<i>Total Additions</i>	<u>52,688</u>
DEDUCTIONS:	
Trust deductions for scholarships	<u>1,250</u>
<i>Total Deductions</i>	<u>1,250</u>
<i>Change in Net Position</i>	51,438
<i>NET POSITION - Beginning of Year</i>	<u>20,332</u>
<i>NET POSITION - End of Year</i>	<u><u>\$ 71,770</u></u>

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

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:*

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments.

a. *Financial Reporting Entity:*

The reporting entity of Howard School District No. 48-3, 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 School District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

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. These statements include the financial activities of the overall government, except for fiduciary activities. These 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 transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

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

b. *Basis of Presentation: (continued)*

Government-Wide Financial Statements: (continued)

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

Fund Financial Statements:

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

1. Total assets, 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% 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.

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

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

b. *Basis of Presentation: (continued)*

Fund Financial Statements: (continued)

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 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 District. This fund is financed by grants and property taxes. This is a major fund.

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

Debt Service 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.

The Bond Redemption Fund: The QZAB Fund is the only debt service fund. This fund was established to collect money in the sinking funds for payment of term bonds. The Capital Outlay fund transfers money to this fund on a yearly basis. At the end of the term, the bonds will be paid off. This is a major fund.

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

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

b. *Basis of Presentation: (continued)*

Proprietary Funds:

Enterprise Funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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.

Other Enterprise Fund: A fund used to record financial transactions related to drivers' education and the FAST program. This fund is financed by user charges. This is not a major fund.

Fiduciary Funds:

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

Private-Purpose Trust Fund Types – Private-purpose trust funds are used to account for all other trust arrangements under which principal and income, benefit individuals, private organizations, or other governments. The School District maintains only the following private-purpose trust fund: Selix Scholarship Trust Fund and its 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 several agency funds for various class years, clubs, athletic teams which account for the monies earned for the various class, club or team projects.

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

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

c. *Measurement Focus and Basis of Accounting:*

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

Measurement Focus:

Government-Wide Financial Statements:

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

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary 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 Howard School District No. 48-3, 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.

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

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

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

Basis of Accounting: (continued)

Fund Financial Statements: (continued)

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.

d. *Interfund Eliminations and Reclassifications:*

Government-Wide Financial Statements:

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

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables are reported as non-spendable fund balance to the extent that the proceeds from the collection of those receivables are not restricted, committed or assigned. Current portions of interfund receivables are considered "available spendable resources" and are reported in the appropriate fund balance category.

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

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

e. Capital Assets:

Government-Wide Financial Statements:

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.

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

The total June 30, 2016 balance of capital assets for governmental activities includes approximately less than one percent for which the costs were determined by estimates of the original costs. These estimated original costs were established by appraisals or deflated current replacement cost. The total June 30, 2016 balance of capital assets for business-type activities are all valued at original 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	\$ --	-- *	--
Land improvements	15,000	straight-line	20 years
Buildings	50,000	straight-line	50 years
Machinery and equipment	5,000	straight-line	4-20 years

*Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

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

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, general obligation bonds, QSCB, and QZAB.

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 nonexchange 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 nonexchange 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 deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

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.

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

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 Non-spendable fund balance is comprised of inventory.

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 committed, then 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:

<u><i>Major Special Revenue Fund</i></u>	<u><i>Revenue Source</i></u>
Capital Outlay Fund	Taxes
Special Education Fund	Taxes
Pension Fund	Taxes

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

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.

Credit Risk – State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices. As of June 30, 2016, the School District’s investment in the SD FIT pool was unrated. The fair value was \$916,831.

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

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer. All of the School District’s investments are in South Dakota Public Investment Trust (SDFIT).

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

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

2. *DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (continued)*

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District’s policy is to credit all income from deposits and investments to the General Fund. United States generally accepted accounting principles, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for 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.

3. *RESTRICTED CASH AND INVESTMENTS:*

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

<u>Amount</u>	<u>Purpose</u>
<u>\$ 432,149</u>	For debt service, by debt covenants

4. *RECEIVABLES AND PAYABLES:*

Receivables and payables are not aggregated in these financial statements. The School Districts expects all receivables to be collected in one year.

5. *INVENTORY:*

Inventory held for consumption is stated at cost.

Inventory for Resale is stated at the lower of cost or market. The cost valuation method is consumption. 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 financials 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 which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets.

HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6. 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.

7. CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets for the fiscal year ended June 30, 2016 is as follows:

Governmental Activities:

	<i>Balance</i> <u>7/01/15</u>	<i>Increases</i>	<i>Decreases</i>	<i>Balance</i> <u>6/30/16</u>
Capital assets, not being depreciated:				
Land	\$ 19,265	\$ --	\$ --	\$ 19,265
<i>Total, not being depreciated</i>	<u>19,265</u>	<u>--</u>	<u>--</u>	<u>19,265</u>
Capital assets, being depreciated:				
Buildings	6,728,335	1,068,991	(260,834)	7,536,492
Improvements other than buildings	752,067	17,511	--	769,578
Machinery and equipment	1,382,955	135,620	(39,828)	1,478,747
<i>Total, being depreciated</i>	<u>8,863,357</u>	<u>1,222,122</u>	<u>(300,662)</u>	<u>9,784,817</u>
Less accumulated depreciation for:				
Buildings	2,032,604	223,917	(143,462)	2,113,059
Improvements	167,926	61,481	--	229,407
Machinery and equipment	822,049	78,475	(39,068)	861,456
<i>Total accumulated depreciation</i>	<u>3,022,579</u>	<u>363,873</u>	<u>(182,530)</u>	<u>3,203,922</u>
<i>Total capital assets, being depreciated, net</i>	<u>5,840,778</u>	<u>858,249</u>	<u>(118,132)</u>	<u>6,580,895</u>
<i>Governmental activity capital assets, net</i>	<u>\$ 5,860,043</u>	<u>\$ 858,249</u>	<u>\$ (118,132)</u>	<u>\$ 6,600,160</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 233,114
Support services	48,839
Cocurricular activities	81,920
<i>Total depreciation expense - governmental activities</i>	<u>\$ 363,873</u>

HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

7. CHANGES IN CAPITAL ASSETS: (continued)

Business-type Activities:

	<i>Balance 7/01/15</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance 6/30/16</i>
Capital assets, being depreciated:				
Machinery and equipment	\$ 44,478	\$ —	\$ —	\$ 44,478
<i>Total, being depreciated</i>	<u>44,478</u>	<u>—</u>	<u>—</u>	<u>44,478</u>
Less accumulated depreciation for:				
Machinery and equipment	34,334	1,801	—	36,135
<i>Total accumulated depreciation</i>	<u>34,334</u>	<u>1,801</u>	<u>—</u>	<u>36,135</u>
<i>Total capital assets, being depreciated, net</i>	<u>10,144</u>	<u>(1,801)</u>	<u>—</u>	<u>8,343</u>
<i>Business-type activity capital assets, net</i>	<u>\$ 10,144</u>	<u>\$ (1,801)</u>	<u>\$ —</u>	<u>\$ 8,343</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:

Food service \$ 1,801

8. LONG-TERM LIABILITIES:

A summary of changes in long-term debt follows:

	<i>Balance 7/1/15</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance 6/30/2016</i>	<i>Amount Due Within One Year</i>
<i>Governmental Activities:</i>					
QSCB Bond	\$ 1,295,000	\$ —	\$ —	\$ 1,295,000	\$ —
QZAB Bond	366,667	—	33,333	333,334	33,333
General obligation bonds - Series 2015	2,010,000	—	115,000	1,895,000	120,000
Plus: Unamortized Premium	35,532	—	2,369	33,163	—
General obligation bonds - Series 2011	705,000	—	95,000	610,000	95,000
OPEB	199,138	63,972	44,390	218,720	—
Compensated absences	48,800	1,800	8,600	42,000	4,500
<i>Total Governmental Activities</i>	<u>\$ 4,660,137</u>	<u>\$ 65,772</u>	<u>\$ 298,692</u>	<u>\$ 4,427,217</u>	<u>\$ 252,833</u>

**HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

8. LONG-TERM LIABILITIES: (continued)

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

Debt payable at June 30, 2016 are comprised of the following:

Qualified school construction bonds	QSCB for high school metal roof, maturity date January 15, 2026, interest rate 5.85%, annual deposits of \$86,333 are required to be made to the Debt Service fund.	\$ 1,295,000
Qualified Zone Academy bonds	QZAB bond for elementary metal roof, maturity date September 12, 2025, unstated interest rate 5%, due in annual installments of \$33,333 from Capital Outlay fund.	333,334
General obligation bonds	The School District issued \$2,010,000 of general obligation certificates, Series 2015. The bonds are payable July 1, 2016 through July 1, 2030 with fixed interest rates from .40% to 3.00% that vary depending on the term of maturity. The Capital Outlay fund makes this payment.	1,895,000
General obligation bonds	The School District issued \$1,070,000 of general obligation refunding certificates, Series 2011. The bonds are payable January 1, 2012 through July 1, 2022 with fixed interest rates from .65% to 3.15% that vary depending on the term of maturity. The Capital Outlay fund makes this payment.	610,000
Other post-employment benefits	The School District provides medical coverage to retired employees and their dependents under certain conditions in accordance with SDCL 6-1-16. Benefit provisions were established and may be amended during the negotiated agreement process between district certified staff and the governing board.	218,720
Compensated absences	Sick leave is earned by employees at varying rates depending on position. Upon termination, certified staff and the business manager are entitled to reimbursement of unused sick leave up to 90 days at \$40 a day or a \$3,600 maximum. Classified staff are entitled to reimbursement of unused sick leave up to 60 days at \$30 a day or a \$1,800 maximum.	42,000

HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

8. LONG-TERM LIABILITIES: (continued)

The annual requirements to maturity for long-term debt June 30, 2016:

Year Ending June 30,	Qualified School Construction Bonds		Qualified Zone Academy Bonds		General Obligation Bonds		TOTAL	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ --	\$ 4,662	\$ 33,333	\$ --	215,000	57,647	\$ 248,333	\$ 62,309
2018	--	4,662	33,333	--	220,000	54,595	253,333	59,257
2019	--	4,662	33,333	--	225,000	50,995	258,333	55,657
2020	--	4,662	33,333	--	225,000	46,851	258,333	51,513
2021	--	4,662	33,333	--	230,000	42,039	263,333	46,701
2022-2026	1,295,000	20,979	166,669	--	780,000	131,242	2,241,669	152,221
2027-2031	--	--	--	--	610,000	46,500	610,000	46,500
TOTALS	\$ 1,295,000	\$ 44,289	\$ 333,334	\$ --	\$ 2,505,000	\$ 429,869	\$ 4,133,334	\$ 474,158

9. OPERATIONAL LEASES:

The School District entered into a three-year operational agreement with the Shannon Colony on September 13, 2013, expiring in the 2015-2016 school year. The agreement contains various covenants and restrictions. The School District will rent the colony school building for \$5,000 annually. Although the three-year agreement matured on June 30, 2016, the school and the colony will honor an oral agreement for the same lease amount to be paid every year. Payments are made from the Capital Outlay Fund.

10. RESTRICTED NET POSITION:

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

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay	law	\$ 1,257,861
Special Education	law	947,043
Pension	law	107,195
Bond Redemption Fund	debt covenants	432,149
SDRS Pension Purposes	law	690,114
		<u>\$ 3,434,362</u>

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

11. ASSIGNED FUND BALANCE FOR CASH FLOW:

As authorized by SDCL 13-11-2, the School Board has determined that year-end minimum \$532,019 is necessary to protect the School District's cash liquidity for July 1 through mid-November of the subsequent fiscal year. This amount is reported as Assigned Fund Balance in the affected fund.

12. INTERFUND TRANSFERS:

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

<u>\$ 3,848</u>	Transfers of investment and deposit earnings to the General Fund are reported. SDCL 4-5-9 and 13-16-18 give the School Board the authority to designate whether all such earnings should be retained by any individual funds or credited to the General Fund. These interfund transfers are not violations of the statutory restrictions on interfund transfers.
<u>\$ 85,614</u>	Transfer from Capital Outlay for sinking fund requirements to bond redemption fund.
<u>\$ 203,990</u>	Transfer to cover the expenditures in the capital projects fund.

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

13. **PENSION PLAN:**

a. **Plan Information:**

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

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.

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

13. *PENSION PLAN: (continued)*

c. Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2016, 2015, and 2014 were \$130,312, \$126,015, and \$122,982, respectively, equal to the required contributions each year.

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

At June 30, 2015, SDRS is 104% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the School District as of June 30, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$	12,393,660
Less proportionate share of total pension liability		11,905,887
<i>Proportionate share of net pension liability (asset)</i>	\$	(487,773)

At June 30, 2016, the School District reported a liability (asset) of \$(487,773) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the School District's proportion was 0.11500600%, which is an decrease of -0.0022047% from its proportion measured as of June 30, 2014.

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

13. *PENSION PLAN: (continued)*

c. *Contributions: (continued)*

For the year ended June 30, 2016, the School District recognized pension expense (revenue) of \$(55,334). At June 30, 2016 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	\$ 99,874	\$ --
Changes in assumption	386,774	--
Net difference between projected and actual earnings on pension plan investments	297,972	719,719
Changes in proportion and difference between District contributions and proportionate share of contributions	7,155	--
District contributions subsequent to the measurement date	<u>130,312</u>	<u>--</u>
TOTAL	<u>\$ 922,087</u>	<u>\$ 719,719</u>

\$130,312 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

<i>Year Ended June 30,</i>	
2017	\$ 25,185
2018	25,185
2019	(60,108)
2020	<u>81,767</u>
TOTAL	<u>\$ 72,029</u>

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

13. *PENSION PLAN: (continued)*

d. *Actuarial Assumptions:*

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

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

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

<i>Asset Class</i>	<i>Target Allocation</i>	<i>Long-term Expected Real Rate of Return</i>
Global equity	61.0%	4.7%
Fixed income	27.0%	1.8%
Real estate	10.0%	5.5%
Cash	2.0%	0.8%
<i>TOTAL</i>	<u>100.0%</u>	

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

13. *PENSION PLAN: (continued)*

e. *Discount Rate:*

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset). (NOTE: If there had been a change in the discount rate since the prior measurement date, the School District should disclose information about that change, as required by paragraph 78a of Statement 68.)

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:

	<i>1% Decrease</i>	<i>Current Discount Rate</i>	<i>1% Increase</i>
School District's proportionate share of the net pension liability (asset)	\$ 1,227,720	\$ (487,774)	\$ (1,886,610)

f. *Pension Plan Fiduciary Net Position:*

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

g. *Payables to the Pension Plan:*

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

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

14. JOINT VENTURES:

The School District participates in the Prairie Lakes Educational Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education services and fiscal management services to the member school districts.

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

Baltic School District No. 49-1	8.01%
Chester Area School District No. 39-1	5.90%
Colman-Egan School District No. 50-6	5.35%
Dell Rapids School District No. 49-3	14.94%
Flandreau School District No. 50-3	14.36%
Garretson School District No. 49-4	6.64%
Howard School District No. 48-3	8.39%
Madison Central School District No. 39-2	15.55%
Oldham-Ramona School District No. 39-5	3.58%
Rutland School District No. 39-4	3.21%
Tri-Valley School District No. 49-6	14.07%

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

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

Separate financial statements for this joint venture are available from Prairie Lakes Educational Cooperative. At June 30, 2016, this joint venture had total assets of \$140,840, total liabilities of \$87,044 and net position of \$53,796.

15. 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, 2016, the School District managed its risks as follows:

Health Insurance:

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

**HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

15. RISK MANAGEMENT: (continued)

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, 2016, no claims were filed for unemployment benefits. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

Liability Insurance:

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

Workers' Compensation:

The School District purchases liability insurance for workers' compensation from a commercial carrier.

16. OTHER POSTEMPLOYMENT BENEFITS:

Plan Description:

The Howard School District Other Postemployment Benefits Plan is a single employer defined benefit OPEB plan. The District provides medical coverage to retired employees and their dependents under certain conditions in accordance with SDCL 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 contribution requirements of plan members and the School District are established and may be amended during the negotiated agreement process between District certified staff and the governing board. A teacher or administrator, who retires from the District on or after the age of 55 and with at least 15 years of consecutive service with the District, may be eligible for retiree health insurance coverage. Coverage ceases when the retiree attains the age of 65. The retiree is responsible for 100% of the full active premium rates for either single or family coverage (pay-as-you-go basis.)

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

16. *OTHER POSTEMPLOYMENT BENEFITS: (continued)*

Annual OPEB Cost and Net OPEB Obligation:

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

Annual required contribution (ARC)	\$ 68,678
Interest on net OPEB obligation	5,974
Adjustment to ARC	<u>(9,864)</u>
<i>Annual OPEB Cost</i>	<u>64,788</u>
Contribution made	<u>(37,581)</u>
Increase (Decrease) in net OPEB obligation	27,207
Net OPEB Obligation, Beginning of Year	<u>199,138</u>
Net OPEB Obligation, End of Year	<u><u>\$ 226,345</u></u>

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

<i>Fiscal Year Ended</i>	<i>Annual OPEB Cost</i>	<i>Percentage of Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
6/30/2016	\$ 64,788	68.5%	\$ 226,345
6/30/2015	\$ 63,972	69.4%	\$ 199,138
6/30/2014	\$ 57,846	54.5%	\$ 179,556

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

16. OTHER POSTEMPLOYMENT BENEFITS: (continued)

Funded Status and Funding Progress:

As of June 30, 2015, the most recent actuarial valuation date, the plan's statistics were as follows:

	<i>Valuation Date June 30, 2015</i>
Actuarial Accrued Liability (AAL)	\$ 555,628
Actuarial Value of Plan Assets	\$ —
Unfunded Actuarial Accrued Liability (UAAL)	\$ 555,628
Funded Ratio	0.00%
Covered Payroll (active plan members)	not applicable
UAAL as a Percentage of Covered Payroll	not applicable

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

Actuarial Methods and Assumptions:

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

In the June 30, 2015 actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a 3.25% per annum, compounded annually discount rate, mortality rates from RP-mortality tables for healthy annuitants and employees for males and females with generational projection, withdrawal rates ranging from 18.20% to 2.3% from ages 25-55, retirement rates ranging from 8%-100% from ages 55-70, spouses' husbands and wives are the same age, 25% of members are assumed to have spouses who elect coverage, 100% of members are assumed to elect coverage upon retirement, health care cost trend rate range from 8.5% to 5.1%, and a specified amount for retiree monthly claim cost.

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

HOWARD SCHOOL DISTRICT NO. 48-3
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS BUDGETARY BASIS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES:				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 1,421,678	\$ 1,421,678	\$ 1,439,745	\$ 18,067
Prior years' ad valorem taxes	2,500	2,500	929	(1,571)
Utility taxes	326,250	326,250	351,862	25,612
Penalties and interest on taxes	2,200	2,200	1,910	(290)
<i>Revenue from Local Governmental Units Other Than LEAs:</i>				
Revenue in lieu of taxes	--	--	1,578	1,578
<i>Earnings on Investments and Deposits</i>	2,500	2,500	2,227	(273)
<i>Cocurricular Activities:</i>				
Admissions	27,400	27,400	24,352	(3,048)
Other pupil activity income	2,700	2,700	2,189	(511)
<i>Other Revenue from Local Sources:</i>				
Rentals	750	750	3,975	3,225
Contributions and donations	--	--	191	191
Charges for services	10,000	10,000	4,441	(5,559)
Other	1,500	1,500	2,529	1,029
<i>Revenue from Intermediate Sources:</i>				
<i>County Sources:</i>				
County apportionment	15,000	15,000	16,438	1,438
Revenue in lieu of taxes	3,000	3,000	1,810	(1,190)
<i>Revenue from State Sources:</i>				
<i>Grants-in-Aid:</i>				
Unrestricted grants-in-aid	582,687	582,687	571,810	(10,877)
<i>Other State Revenue</i>	--	--	1,743	1,743
<i>Revenue from Federal Sources:</i>				
<i>Grants-in-Aid:</i>				
Unrestricted grants-in-aid received from federal government through the state	--	--	696	696
Restricted grants-in-aid received from federal government through the state	98,822	98,822	97,867	(955)
<i>Other Federal Revenue</i>	--	--	633	633
TOTAL REVENUES	<u>\$ 2,496,987</u>	<u>\$ 2,496,987</u>	<u>\$ 2,526,925</u>	<u>\$ 29,938</u>

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

HOWARD SCHOOL DISTRICT NO. 48-3
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

	<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	\$ 751,298	\$ 751,298	\$ 730,002	\$ 21,296
Middle school	211,710	211,710	197,098	14,612
High school	531,549	533,549	531,607	1,942
<i>Special Programs:</i>				
Educationally deprived	78,825	78,825	76,091	2,734
<i>Support Services:</i>				
<i>Pupils:</i>				
Guidance	53,265	53,265	52,896	369
Health	1,600	1,700	1,604	96
<i>Instructional Staff:</i>				
Improvement of instruction	10,000	10,000	5,512	4,488
Educational media	105,766	105,766	98,676	7,090
<i>General Administration:</i>				
Board of education	37,904	38,904	36,499	2,405
Executive administration	68,606	70,306	70,297	9
<i>School Administration:</i>				
Office of the principal	239,785	239,785	237,090	2,695
Other	500	500	–	500
<i>Business:</i>				
Fiscal services	93,970	94,720	94,690	30
Operation and maintenance of plant	256,980	256,980	244,339	12,641
Pupil transportation	135,000	135,000	118,294	16,706
<i>Central:</i>				
Staff	750	750	605	145
<i>Community Services:</i>				
Other	380	380	359	21
<i>Cocurricular Activities:</i>				
Transportation	15,770	15,770	13,117	2,653
Combined activities	167,667	167,667	161,385	6,282
Contingencies	40,000	40,000	–	40,000
Amount Transferred	–	(5,550)	–	(5,550)
TOTAL EXPENDITURES	2,801,325	2,801,325	2,670,161	131,164
<i>Excess of Revenue Over (Under) Expenditures</i>	(304,338)	(304,338)	(143,236)	161,102
OTHER FINANCING SOURCES:				
Transfers in	–	–	3,848	3,848
Sales of surplus property	–	–	431	431
Compensation for Loss of General Capital Assets	–	–	2,152	2,152
TOTAL OTHER FINANCING SOURCES	–	–	6,431	6,431
<i>Net Change in Fund Balances</i>	(304,338)	(304,338)	(136,805)	167,533
<i>FUND BALANCE - Beginning of Year</i>	998,478	998,478	998,478	–
<i>FUND BALANCE - End of Year</i>	\$ 694,140	\$ 694,140	\$ 861,673	\$ 167,533

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

HOWARD SCHOOL DISTRICT NO. 48-3
BUDGETARY COMPARISON SCHEDULE – CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<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	\$ 1,187,897	\$ 1,187,897	\$ 1,245,220	\$ 57,323
Prior years' ad valorem taxes	800	800	257	(543)
Penalties and interest on taxes	1,000	1,000	1,321	321
Earnings on Investments and Deposits	--	--	1,938	1,938
<i>Other Revenue from Local Sources</i>				
Contributions and donations	6,000	6,000	6,000	--
<i>Revenue from State Sources:</i>				
Restricted grants-in-aid	--	--	35,196	35,196
<i>Revenue from Federal Sources:</i>				
Other Federal Revenue	86,452	86,452	74,759	(11,693)
TOTAL REVENUES	<u>1,282,149</u>	<u>1,282,149</u>	<u>1,364,691</u>	<u>82,542</u>
EXPENDITURES:				
<i>Instruction:</i>				
<i>Regular Programs:</i>				
Elementary	104,000	104,000	91,715	12,285
High school	73,359	73,359	64,319	9,040
<i>Special Programs:</i>				
Gifted and Talented	500	--	--	--
Programs for special education	--	500	449	51
<i>Support Services:</i>				
<i>Instructional Staff:</i>				
Educational media	14,100	14,100	13,256	844
<i>Business:</i>				
Fiscal services	9,188	9,188	6,683	2,505
Operation and maintenance of plant	387,662	387,662	235,879	151,783
Pupil transportation	146,500	146,500	30,389	116,111
Debt Services	431,885	431,885	403,670	28,215
<i>Cocurricular Activities:</i>				
Combined activities	28,620	28,620	18,042	10,578
TOTAL EXPENDITURES	<u>1,195,814</u>	<u>1,195,814</u>	<u>864,402</u>	<u>331,412</u>
<i>Excess of Revenue Over (Under) Expenditures</i>	<u>86,335</u>	<u>86,335</u>	<u>500,289</u>	<u>413,954</u>
OTHER FINANCING SOURCES:				
Transfers out	(86,335)	(86,335)	(291,542)	(205,207)
TOTAL OTHER FINANCING SOURCES:	<u>(86,335)</u>	<u>(86,335)</u>	<u>(291,542)</u>	<u>(205,207)</u>
<i>Net Change in Fund Balances</i>	--	--	208,747	208,747
<i>FUND BALANCE - Beginning of Year</i>	<u>1,051,427</u>	<u>1,051,427</u>	<u>1,051,427</u>	<u>--</u>
<i>FUND BALANCE - End of Year</i>	<u>\$ 1,051,427</u>	<u>\$ 1,051,427</u>	<u>\$ 1,260,174</u>	<u>\$ 208,747</u>

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

HOWARD SCHOOL DISTRICT NO. 48-3
BUDGETARY COMPARISON SCHEDULE – SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BUDGETARY</u>	<u>FINAL BUDGET- POSITIVE (NEGATIVE)</u>
REVENUES:				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 615,447	\$ 615,447	\$ 719,001	\$ 103,554
Prior years' ad valorem taxes	–	–	146	146
Penalties and interest on taxes	600	600	826	226
Earnings on Investments and Deposits	–	–	1,685	1,685
<i>Other Revenue from Local Sources:</i>				
Charges for services	2,700	2,700	2,544	(156)
<i>Revenue from Federal Sources:</i>				
<i>Grants-in-Aid:</i>				
Restricted grants-in-aid received through the state	94,150	94,150	76,411	(17,739)
TOTAL REVENUES:	<u>712,897</u>	<u>712,897</u>	<u>800,613</u>	<u>87,716</u>
EXPENDITURES:				
<i>Instruction:</i>				
<i>Special Programs:</i>				
Programs for special education	545,900	570,900	441,697	129,203
<i>Support Services:</i>				
<i>Pupils:</i>				
Psychological	30,000	30,000	23,993	6,007
Speech pathology	69,720	69,720	61,967	7,753
Student therapy services	27,000	27,000	17,906	9,094
<i>Special Education:</i>				
Administrative costs	40,500	40,500	19,449	21,051
Transportation costs	–	1,000	804	196
Other	7,000	87,000	94,649	(7,649)
TOTAL EXPENDITURES	<u>720,120</u>	<u>826,120</u>	<u>660,465</u>	<u>165,655</u>
<i>Excess of Revenue Over (Under) Expenditures</i>	<u>(7,223)</u>	<u>(113,223)</u>	<u>140,148</u>	<u>253,371</u>
OTHER FINANCING USES:				
Transfers out	–	–	(1,685)	(1,685)
<i>Net Change in Fund Balances</i>	(7,223)	(113,223)	138,463	251,686
<i>FUND BALANCE - Beginning of Year</i>	808,580	808,580	808,580	–
<i>FUND BALANCE - End of Year</i>	<u>\$ 801,357</u>	<u>\$ 695,357</u>	<u>\$ 947,043</u>	<u>\$ 251,686</u>

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

**HOWARD SCHOOL DISTRICT NO. 48-3
BUDGETARY COMPARISON SCHEDULE – PENSION FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS BUDGETARY</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BASIS</u>	
REVENUES:				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 104,510	\$ 104,510	\$ 120,028	\$ 15,518
Prior years' ad valorem taxes	–	–	34	34
Penalties and interest on taxes	–	–	163	163
Earnings on Investments and Deposits	–	–	225	225
TOTAL REVENUE	104,510	104,510	120,450	15,940
EXPENDITURES:				
<i>Instruction:</i>				
<i>Regular Programs:</i>				
Elementary	28,200	28,200	28,200	–
Middle school	10,325	10,325	9,791	534
High school	22,300	22,300	22,300	–
<i>Special Programs:</i>				
Educationally deprived	830	830	674	156
<i>Support Services:</i>				
<i>Pupils:</i>				
Guidance	2,585	2,585	2,584	1
<i>Instructional Staff:</i>				
Educational media	4,505	4,505	4,382	123
<i>General Administration:</i>				
Executive administration	2,545	2,545	2,542	3
<i>School Administration:</i>				
Office of the principal	10,950	10,950	10,905	45
<i>Business:</i>				
Fiscal services	3,990	3,990	3,990	–
Operations and maintenance of plant	7,200	7,200	6,555	645
Pupil transportation	2,100	2,100	2,100	–
Food services	3,980	3,980	3,052	928
<i>Cocurricular Activities:</i>				
Combined Activities	5,000	5,000	4,618	382
TOTAL EXPENDITURES	104,510	104,510	101,693	2,817
<i>Excess of Revenue Over (Under) Expenditures</i>	–	–	18,757	18,757
OTHER FINANCING USES				
Operating transfer out	–	–	(225)	(225)
<i>Net Change in Fund Balances</i>	–	–	18,532	18,532
<i>FUND BALANCE - Beginning of Year</i>	88,663	88,663	88,663	–
<i>FUND BALANCE - End of Year</i>	\$ 88,663	\$ 88,663	\$ 107,195	\$ 18,532

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

HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A
JUNE 30, 2016

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 number 8.
- 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).

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A
JUNE 30, 2016*

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 Balances, however in the budgetary Required Supplementary Information 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.

HOWARD SCHOOL DISTRICT NO. 48-3
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
SOUTH DAKOTA RETIREMENT SYSTEM
JUNE 30, 2016

	<i>2016</i>	<i>2015</i>
District's proportion of the net pension liability (asset)	0.1150060%	0.1172107%
District's proportionate share of net pension liability (asset)	\$ (487,773)	\$ (844,455)
District's covered-employee payroll	\$ 2,100,249	\$ 2,049,700
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-23.22%	-41.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	104.10%	107.29%

HOWARD SCHOOL DISTRICT NO. 48-3
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS
SOUTH DAKOTA RETIREMENT SYSTEM
JUNE 30, 2016

	<i>2016</i>	<i>2015</i>
Contractually required contribution	\$ 130,312	\$ 126,015
Contributions in relation to the contractually required contribution	<u>(130,312)</u>	<u>(126,015)</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>
District's covered-employee payroll	\$ 2,171,867	\$ 2,100,250
Contributions as a percentage of covered-employee payroll	6.00%	6.00%

**HOWARD SCHOOL DISTRICT NO. 48-3
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2016**

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (Unit Credit) (b)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) (b-a)	FUNDED RATION (a/b)	COVERED PAYROLL (c)	UALL AS A PERCENTAGE OF COVERED PAYROLL [(b-a)/c]
6/29/2012	<u>\$ –</u>	<u>\$ 425,366</u>	<u>\$ 425,366</u>	0.00%	n/a	n/a
6/30/2015	<u>\$ –</u>	<u>\$ 555,628</u>	<u>\$ 555,628</u>	0.00%	n/a	n/a