

**SOUTH DAKOTA
HIGH SCHOOL ACTIVITIES ASSOCIATION**

AUDIT REPORT

June 30, 2017



**State of South Dakota
Department of Legislative Audit**
427 South Chapelle
% 500 East Capitol
Pierre, SD 57501-5070

SOUTH DAKOTA HIGH SCHOOL ACTIVITIES ASSOCIATION
ASSOCIATION OFFICIALS
June 30, 2017

Board of Directors:

Steve Morford – Chairperson
Bud Postma – Vice Chairperson
Dr. Jason Uttermark
Sandra Klatt
Dr. Roger Bordeaux
Moe Ruesink
David Planteen
Dr. Brian Maher
Jim Aisenbrey

Executive Director:

Wayne Carney

Finance Director:

Isaac Jahn

SOUTH DAKOTA HIGH SCHOOL ACTIVITIES ASSOCIATION
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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

Board of Directors
South Dakota High School Activities Association

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Dakota High School Activities Association, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the South Dakota High School Activities Association's (Association) basic financial statements and have issued our report thereon dated May 21, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Current Audit Findings as finding number 2017-001 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Current Audit Findings as finding number 2017-002 to be a significant deficiency.

Compliance and Other Matters

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

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is fluid and cursive, with the first name "Martin" and last name "Guindon" clearly distinguishable.

Martin L. Guindon, CPA
Auditor General

May 21, 2018

SOUTH DAKOTA HIGH SCHOOL ACTIVITIES ASSOCIATION
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Audit Findings:

The prior audit report contained no written audit findings.

SCHEDULE OF CURRENT AUDIT FINDINGS

Finding No. 2017-001: Financial Statement Reporting Errors

Type of Finding: Material Weakness

Criteria:

GASB Codification section 2450.112 states that a Statement of Cash flows should classify cash receipts and cash payments as resulting from operating, noncapital financing, capital and related financing, or investing activities.

GASB Codification section 2450.129 also states that the Statement of Cash flows should provide, in an accompanying schedule, a reconciliation of operating income to operating cash flows (indirect method). The reconciliation should determine and report the same amount for net cash flow from operating activities indirectly by adjusting operating income to remove the effects of depreciation, deferred outflows and inflows of resources, accruals of expected future operating cash receipts and payments, etc.

Condition:

Several reporting errors were noted with reporting of cash flows from operating activities, cash flows from noncapital financing activities, and cash flows from investing activities including but not limited to the following:

The Statement of Cash flows should reflect cash inflows and outflows from investing activities including but not limited to receipts from sales of equity instruments and payments to acquire equity instruments. We noted the Association failed to report significant investment activity in the Statement of Cash flows. During fiscal year 2017 the Association made five investment withdrawals totaling \$250,000.00. These monies were deposited into their regular checking account. During the same fiscal year three withdrawals were made from their regular checking account totaling \$250,000.00. These withdrawals were made for the purchase of investments. This investment activity was not reported.

Cash flows from operating activities includes cash received from customers, cash payments to suppliers for goods and services, and cash payments to employees for services, to arrive at net cash provided (used) by operating activities. We determined cash payments to suppliers for goods and services were overstated by \$50,048.31 and cash payments to employees for services were understated by \$38,765.38.

The Statement of Cash flows should provide in an accompanying schedule, a reconciliation of operating income to operating cash flows. The reconciliation should determine and report the same amount for net cash flow from operating activities "indirectly" by adjusting operating income to remove the effects of depreciation, deferred outflows and inflows of resources, accruals of expected future operating cash receipts and payments, etc. Significant errors were noted with the reconciliation resulting in both under and overstated amounts reported in a combined amount of \$272,307.75.

Cause:

Internal controls over financial statement reporting were not in place to determine amounts were properly reported.

Effect:

Reporting errors result in incorrect information being provided to users of the financial statements. We were able to correct the material reporting errors and therefore have issued an unmodified auditor's opinion on the financial statements contained in this audit report.

Recommendation:

1. We recommend the Association strengthen internal controls over financial reporting.

Views of Responsible Officials:

Response to all written findings of 2017 Audit Report: SDHSAA concurs with all findings.

Finding No. 2017-002: Accounts Receivable Records Not Maintained

Type of Finding: Significant Deficiency

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the *Internal Control – Integrated Framework (2013 Framework)* defined internal control as:

... a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control 16 states, "management should establish and operate monitoring activities to monitor the internal control system and evaluate the results" and principle 17 states, "management should remediate identified internal control deficiencies on a timely basis".

Condition:

Accounts receivable subsidiary records have not been maintained for a television broadcaster under contract to make payments to the Association. Subsidiary records would enable the Association to track outstanding receivables and determine if there are unpaid amounts due at fiscal year-end. Additionally, the accounts receivable system did not use an accounts receivable control account that would have allowed for the reconciliation to subsidiary records.

Testing of receivables associated with contracts indicated the television broadcaster owed the Association \$27,620.00 plus interest as of June 30, 2017 on a five year contract entered into in August of 2014.

The contract requires two semiannual payments of \$31,750.00 each plus an additional 10% percent of gross revenue generated by corporate sponsorship of tournament broadcasts. The contract also states that a 1.5% percent finance charge on an unpaid balance will be levied monthly. Because no receivable records were maintained, the Association was unaware the 10% percent gross revenue portion of the contract due on March 31, 2017 was late and still outstanding as of June 30, 2017. The Association received a \$27,620.00 payment from the broadcaster on February 28, 2018. However, prior to our testing and inquiry as to whether all payments were received there was no contact with the broadcaster to determine what fiscal year the payment was for and potential interest due.

Cause:

Inadequate internal controls consisting of accounts receivable records were not in place to determine all payments were received from the television broadcaster.

Effect:

As a result of the inadequate accounts receivable records the Association was not able to determine all payments were received on a timely basis increasing the likelihood of improper asset and revenue recognition.

Recommendation:

2. We recommend the Association develop and maintain adequate accounts receivable records for proper reporting and to determine unpaid balances on contracts.

Views of Responsible Officials:

Response to all written findings of 2017 Audit Report: SDHSAA concurs with all findings.



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

Board of Directors
South Dakota High School Activities Association

Report on the Financial Statements

We have audited the accompanying financial statements of the South Dakota High School Activities Association, as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 from 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota High School Activities Association, as of June 30, 2017, and the changes in its financial position and its cash flows 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 Schedule of the Association Contributions and the Schedule of the Association's Proportionate Share of the Net Pension Liability (Asset) on pages 26 and 27 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.

The South Dakota High School Activities Association has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the South Dakota High School Activities Association's basic financial statements. The Schedule of Budgeted and Actual Revenue – Cash Basis and Schedule of Budgeted and Actual Expenditures – Cash Basis listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Budgeted and Actual Revenue – Cash Basis and Schedule of Budgeted and Actual Expenditures – Cash Basis are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Budgeted and Actual Revenue – Cash Basis and Schedule of Budgeted and Actual Expenditures – Cash Basis are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2018 on our consideration of the South Dakota High School Activities Association's internal control over

financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 South Dakota High School Activities Association's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is fluid and cursive, with the first name "Martin" and last name "Guindon" clearly distinguishable.

Martin L. Guindon, CPA
Auditor General

May 21, 2018

SOUTH DAKOTA HIGH SCHOOL ACTIVITIES ASSOCIATION
STATEMENT OF NET POSITION
JUNE 30, 2017

Assets:	
Current Assets:	
Cash and Cash Equivalents	\$ 278,500.07
Investments	1,443,698.47
Accounts Receivable	7,039.75
Total Current Assets	<u>1,729,238.29</u>
Non-Current Assets:	
Land	163,870.75
Land Improvements	48,027.26
Less: Accumulated Depreciation-Land Improvements	(47,626.84)
Building	787,943.97
Less: Accumulated Depreciation-Building	(198,741.12)
Equipment, Furniture and Fixtures	181,273.48
Less: Accumulated Depreciation-Equipment, Furniture and Fixtures	(147,490.70)
Beneficial Interest in Assets Held by SD Community Foundation	361,524.74
Total Non-Current Assets	<u>1,148,781.54</u>
Total Assets	<u>2,878,019.83</u>
Deferred Outflows of Resources:	
Pension Related Deferred Outflows	<u>311,830.19</u>
Liabilities:	
Current Liabilities:	
Vouchers Payable	12.89
Accrued Vacation	36,931.00
Accrued Sick Pay	2,134.26
Severance Pay Benefit	44,774.60
Post Employment Benefit	4,800.00
Total Current Liabilities	<u>88,652.75</u>
Non-Current Liabilities:	
Accrued Vacation	4,964.63
Accrued Sick Leave	892.98
Severance Pay Benefit	30,756.33
Post Employment Benefit	1,472.77
Net Pension Liability	127,805.95
Total Non-Current Liabilities	<u>165,892.66</u>
Total Liabilities	<u>254,545.41</u>
Deferred Inflows of Resources	
Pension Related Deferred Inflows	<u>5,530.39</u>
Net Position:	
Net Investment in Capital Assets	787,256.80
Restricted for Nonexpendable Interest in SD Community Foundation	361,524.74
Restricted for SDRS Pension Purposes	178,493.85
Unrestricted	1,602,498.83
Total Net Position	<u>\$ 2,929,774.22</u>

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

SOUTH DAKOTA HIGH SCHOOL ACTIVITIES ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating Revenue:		
Basketball:		
State Tournament - Boys	\$ 291,642.00	
State Tournament - Girls	146,485.00	
State Tournament - Boys and Girls	145,327.50	
Sub-State Events		
Elimination Tournaments	<u>605,962.80</u>	
Total Basketball Receipts		\$ 1,189,417.30
Wrestling:		
State Tournament	252,440.00	
Sub-State Events	<u>28,526.00</u>	
Total Wrestling Receipts		280,966.00
Volleyball:		
State Tournament	90,543.00	
Sub-State Events	<u>173,232.20</u>	
Total Volleyball Receipts		263,775.20
Football:		
State Tournament	219,879.00	
Sub-State Events	<u>285,416.60</u>	
Total Football Receipts		505,295.60
Cross Country		19,591.00
State Track and Field Meet		121,559.00
State Gymnastics Meet		12,133.00
Cheer and Dance		20,938.00
Soccer		17,262.00
All-State Chorus and Orchestra		73,789.00
Show Choir		11,670.00
All-State Band		9,360.00
All-State Jazz Band		1,960.00
Television Contract		63,500.00
Ball Bids		53,500.00
Corporate Partner		300,000.00
Fine Arts Fees		155,580.00
NF News/Student Press Fee		5,580.00
Music Programs/Shirts		194.00
Sale of Medals		2,204.90
Coaches Clinic		920.00
Rule Books/Publications		25,893.00
Registration of Officials		76,995.98
Officials/Coaches Penalties		7,365.00
Speech Ad Revenue		400.00
Speech Programs/Shirts		764.25
Miscellaneous		<u>27,901.51</u>
Total Operating Revenue		<u>3,248,514.74</u>
Operating Expenses:		
General and Administrative		1,813,497.43
Activities		1,728,600.86
Depreciation Expense		<u>22,948.00</u>
Total Operating Expenses		<u>3,565,046.29</u>
Operating Income		<u>(316,531.55)</u>
Non-operating Revenue (Expense):		
Earnings on Deposits and Investments		41,160.43
Unrealized Gain (Loss) on Investments		77,036.68
Unrealized Gain (Loss) on Beneficial Interest in Assets Held by SD Community Foundation		35,725.93
Contributions and Donations		37,019.75
Contributions for SD Community Foundation		23,485.00
Investment Expense		(7,317.70)
Loss on Disposal of Equipment		(1,282.00)
South Dakota Community Foundation Grant Expense		<u>(8,850.00)</u>
Total Non-operating Revenue (Expense)		<u>196,978.09</u>
Change in Net Position		(119,553.46)
Net Position, July 1, 2016		<u>3,049,327.68</u>
Net Position, June 30, 2017		<u>\$ 2,929,774.22</u>

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

SOUTH DAKOTA HIGH SCHOOL ACTIVITIES ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 2,519,867.05	
Cash Payments to Suppliers for Goods and Services	(1,691,423.89)	
Cash Payments to Employees for Services	<u>(1,053,033.17)</u>	
Net Cash Provided (Used) by Operating Activities		<u>\$ (224,590.01)</u>
Cash Flows from Noncapital Financing Activities:		
Grant from SD Community Foundation	8,850.00	
Grant Expenditure	(8,850.00)	
Contributions for SD Community Foundation	23,485.00	
Contribution to SD Community Foundation	<u>(23,485.00)</u>	
Net Cash Provided (Used) by Noncapital Financing Activities		<u>0.00</u>
Cash Flows from Investing Activities:		
Sale of Investments	(250,000.00)	
Purchase of Investments	250,000.00	
Interest Received on Investments	<u>2,168.44</u>	
Net Cash Provided (Used) by Investing Activities		<u>2,168.44</u>
Net Decrease in Cash and Cash Equivalents During the Fiscal Year		(222,421.57)
Cash and Cash Equivalents at Beginning of Year		<u>500,921.64</u>
Cash and Cash Equivalents at End of Year		<u>\$ 278,500.07</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income (Loss)		\$ (316,531.55)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Activities Expense - Value of Donated Automobiles	37,019.75	
Depreciation Expense	22,948.00	
Increase in Accounts Receivable	(1,911.00)	
Decrease in Net Pension Asset	154,147.83	
Increase in Pension Related Deferred Outflows	(11,471.68)	
Decrease in Accrued Vacation Liability	(21,467.16)	
Decrease in Accrued Sick Leave Liability	(25,408.71)	
Increase in Severance Pay Benefit Liability	39,372.98	
Increase in Net Pension Liability	127,805.95	
Decrease in Pension Related Deferred Inflows	(221,917.68)	
Decrease in Accrued Payroll Taxes	(458.22)	
Decrease in Accrued Post Employment Benefit Liability	(4,800.00)	
Decrease in Vouchers Payable	<u>(1,918.52)</u>	
Total Adjustments		<u>91,941.54</u>
Net Cash Provided (Used) by Operating Activities		<u>\$ (224,590.01)</u>
Non-cash Investing, Capital and Financing Activities:		
Value of Donated Automobiles	\$ 37,019.75	
Increase in Fair Value of Investments	\$ 108,477.36	
Beneficial Interest in Assets Held by SD Community Foundation	\$ 36,917.76	

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

SOUTH DAKOTA HIGH SCHOOL ACTIVITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

a. Nature of Activities:

The school districts of the State of South Dakota, acting by and through their duly elected school board members, associated together in the creation and development of a voluntary, nonprofit association, the South Dakota High School Activities Association (Association), to direct and coordinate interscholastic activities carried on by member high schools of South Dakota.

b. Significant Accounting Policies:

Date of Management's Review:

Management has evaluated subsequent events through April 30, 2018, the date the financial statements were available to be issued.

Estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c. Basis of Presentation:

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

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 constituency 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.

The Association has one enterprise fund.

d. 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 expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

The “economic resources” measurement focus and the accrual basis of accounting are applied to proprietary fund types.

Basis of Accounting:

The financial statements are presented on the accrual basis of accounting; revenues are recorded when earned and expenses are recorded when the obligation is incurred.

e. Capital Assets:

On July 1, 2004, the Association and Delta Dental Plan of South Dakota entered into an agreement of joint venture for the construction of an office building together with related improvements. The Association’s undivided interest is 63% and Delta Dental Plan of South Dakota’s is 37%. Each entity was liable for their share of the construction costs of the building and related improvements, in proportion to their undivided interest. Buildings and land improvements are valued at historical cost. The value reported by the Association reflects their undivided interest of 63% in the building and land improvements. All non-structural and routine repairs are at the expense of the applicable owner.

Land was valued at estimated fair value at the time the joint venture agreement was executed. This value was arrived at by Delta Dental Plan of South Dakota, who prior to entering into an agreement of joint venture with the Association was the sole owner of the property. The value assigned to the property was arrived at by analyzing similar commercial property values. The property is currently held jointly between the Association and Delta Dental Plan of South Dakota as tenants in common. The value reported by the Association represents their undivided interest of 63% in the property.

Equipment, furniture, and fixtures are valued at historical cost. Construction period interest is capitalized in accordance with US GAAP.

Capital assets acquired after July 1, 2007 are capitalized, based on the criteria of a useful life of one year or more, tangible in nature, and a unit cost of \$2,500 or more. Capital assets acquired prior to July 1, 2007 were capitalized at a cost of \$300 or more.

Buildings, equipment and furniture, and land improvements are depreciated over their estimated useful life using the straight-line method of depreciation. The estimated useful life for buildings is 45 years. The estimated useful life for land improvements is 10 years. The estimated useful life for equipment and furniture varies from 3 to 50 years.

f. Budget:

The Association follows these procedures in establishing the budget:

1. At the meeting just prior to the fiscal year end, the Executive Director submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. The Board of Directors approves the budget at this meeting.
3. The Board of Directors must approve any revisions to the budget.

The budget is developed and approved using the cash basis of accounting. Therefore, the schedule of budgeted and actual revenues and expenditures in the supplementary information is presented on the cash basis of accounting.

g. Employee Fringe Benefits:

The Association pays the cost of single health insurance coverage for those administrative assistant employees and family health insurance coverage for those executive employees who enroll in the Association's group health plan with Wellmark.

Payments made during fiscal year 2017 amounted to \$156,551.96.

The Association pays dental insurance for all employees. Family coverage is optional at the employee's expense. Payments made during fiscal year 2017 amounted to \$5,137.60.

h. Accumulated Unpaid Vacation and Sick Leave:

Sick Leave:

Executive staff, the technology director, the finance director, and administrative assistants earn sick leave at the rate of 12 days per fiscal year and this can be accumulated without limit.

Board action on April 15-16, 2008 changed the reimbursement of unused sick leave. Only employees employed before June 30, 2008 will be eligible for reimbursement of unused sick leave upon termination. The amount is determined by multiplying current base pay times a maximum of 50 days of unused sick leave. Base pay is computed by dividing the current annual salary by 260 days.

Vacation Leave:

Vacation leave is earned by the executive staff, the technology director, and the finance director at a rate of 12 working days after 1 year of service, 15 working days after 2 years, and 20 working days after 7 years. The full-time administrative assistants are eligible for 12 working days of paid vacation after 1 year of service, 15 working days after 2 years, and 18 working days after 7 years. Vacation leave is accrued monthly, with a maximum amount of accrual equal to twice the annual rate.

Executive staff, the technology director, and the finance director are eligible for reimbursement of unused vacation leave up to a maximum of 40 days. The administrative assistants are eligible up to a maximum of 36 days. The amount is determined by multiplying current base pay times the number of unused vacation days up to the limits set forth in the policy. Base pay is computed by dividing the current annual salary by 260 days.

The financial statements give effect to these liabilities.

i. Investments:

Investments of the Association are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. Unrealized gains and losses due to fluctuations in market value are included in investment income.

j. Cash Flows:

For purposes of the Statement of Cash Flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

k. Revenue and Expense Classifications:

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

l. Net Position:

Net Position is classified in the following three components:

1. Investment in capital assets – Consists of capital assets, net of accumulated depreciation.
2. Restricted – 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; or (c) contractual constraints.
3. Unrestricted – Consists of net position that does not meet the definition of restricted or net investment in capital assets.

m. Application of Net Position:

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

n. Long-Term Liabilities:

The accounting for proprietary fund long-term debt is on the accrual basis. The long-term liabilities consist of compensated absences, accrued payroll taxes for the compensated absences, a severance pay benefit, and a post-employment benefit.

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

State law does not limit the Association's deposit and investment choices. The Association does not have a formal custodial credit risk deposit policy.

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Association's mutual fund investments are susceptible to credit risk because mutual funds are not rated nor does the U.S. Government guarantee them. The Association does not have a formal credit risk investment policy.

Concentration of Credit Risk – The Association places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The Association does 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.

As of June 30, 2017, the Association had investments maturing as follows:

Investment Type	Fair Value	2017 Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	Greater than 10
Mutual Funds	\$ 276,636.13	\$ 95,217.87	\$ 85,974.87	\$ 95,443.39	\$ -
Exchange-Traded Funds	191,400.37	-	-	191,400.37	-
Total	\$ 468,036.50	\$ 95,217.87	\$ 85,974.87	\$ 286,843.87	\$ -

3. RECEIVABLES:

Receivables are not aggregated in the financial statements.

The Association expects all accounts receivable to be collected within one year. Appropriate allowances for estimated uncollectibles have not been established due to the fact that prior receivables have been collected.

4. CHANGES IN CAPITAL ASSETS:

	Balance 7/01/16	Increases	Decreases	Balance 6/30/17
Capital Assets, not being depreciated:				
Land	\$ 163,870.75	\$	\$	\$ 163,870.75
Capital Assets, being depreciated:				
Land Improvements	48,027.26			48,027.26
Building	787,943.97			787,943.97
Equipment, Furniture and Fixtures	191,588.48		10,315.00	181,273.48
Totals	1,027,559.71	0.00	10,315.00	1,017,244.71
Less Accumulated Depreciation for:				
Land Improvements	47,626.84			47,626.84
Building	183,453.12	15,288.00		198,741.12
Equipment, Furniture and Fixtures	148,863.70	7,660.00	9,033.00	147,490.70
Total Accumulated Depreciation	379,943.66	22,948.00	9,033.00	393,858.66
Total Capital Assets, being Depreciated, Net	647,616.05	(22,948.00)	(1,282.00)	623,386.05
Capital Assets, Net	\$ 811,486.80	\$ (22,948.00)	\$ (1,282.00)	\$ 787,256.80

5. LONG-TERM LIABILITES:

Long-term obligations at June 30, 2017 and changes to long-term liabilities during the fiscal year ended are as follows:

	Balance 7/01/16	Increases	Decreases	Balance 6/30/17	Due Within One Year
Accrued Vacation	\$ 63,362.79	\$ 50,055.86	\$ 71,523.02	\$ 41,895.63	\$ 36,931.00
Accrued Sick Pay	\$ 28,435.95	\$ 13,395.12	\$ 38,803.83	\$ 3,027.24	\$ 2,134.26
Net Pension Liability	\$	\$ 127,805.95	\$	\$ 127,805.95	\$

6. INCOME TAXES:

The Association is exempt from federal income taxes pursuant to the provisions of Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. Contributions to the organization are deductible for income tax purposes.

Accounting standards prescribe a recognition threshold of more likely than not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. At June 30, 2017, the Association believes that there are no uncertain tax positions or liabilities, or interest and penalties associated with uncertain tax positions. If the Association had interest and penalties related to uncertain tax positions, it would be accounted for as a component of income tax expense. In accordance with the applicable statute of limitations, the Association's tax returns could be audited by the Internal Revenue Service for the years ended June 30, 2014 to 2017.

7. POST EMPLOYMENT BENEFIT:

The Association adopted a policy to provide past Executive Director Marlyn Goldhammer \$400.00 a month, for the rest of his life, to purchase supplemental medical insurance. This benefit went into effect July 1, 2001. Marlyn Goldhammer is the only retiree eligible to receive this benefit.

During fiscal year 2017, a budgeted expense of \$4,800.00 was incurred for this benefit. Future payments have been estimated to total approximately \$6,272.77. No monies have been set-aside for future payments.

8. SEVERANCE PAY BENEFIT:

The Association has a policy where a retirement/severance benefit is available to any qualifying employee. The employee must be at least 55 years of age and has not yet reached their 69th birthday. An employee who has been employed by the Association for at least fifteen (15) years will be eligible for 60% of their final salary payable over a three (3) year period. The first payment shall be made prior to June 30 of the retirement year with payments two and three being made the following January 1 and prior to February 28 the following two years. An employee who has been employed by the Association for at least twenty (20) years will be eligible for 80% of their final salary payable over a three (3) year period. Payment will be made during the month of June each fiscal year. An employee who has been employed by the Association for at least twenty-five (25) years will be eligible for 100% of their final salary payable over a three (3) year period. Payment will be made during the month of June each fiscal year. A maximum of one new recipient may become eligible per budget year. Notice of retirement must be submitted in writing a minimum of 180 days prior to the actual retirement date. During fiscal year 2017, an expense

of \$52,896.01 was incurred for this benefit. Future payments over the next 2 years will total \$75,530.94. No monies have been set aside for future payments.

In the event the employee entitled to the separation pay policy benefit hereunder shall die while all or part of such benefit remains unpaid, such unpaid benefit or part thereof shall be paid to the beneficiary designated in writing by the employee prescribed by the comptroller. In the event no beneficiary has been designated, such unpaid benefit shall be paid to the estate of the deceased.

9. **RISK MANAGEMENT:**

The Association 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 fiscal year ended June 30, 2017, the Association managed its risks as follows:

Employee Health & Dental Insurance:

See note 1 g.

Liability Insurance:

The Association purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of staff members from a commercial insurance carrier.

Board of Directors coverage includes:

- a) Bodily injury liability, including participant and spectator bodily injury at events under the Association's jurisdiction, sponsorship or control;
- b) Property damage liability at events under the Association's jurisdiction, sponsorship, and control;
- c) Auto liability insurance of secondary coverage in the amount of \$1,000,000 when driving personal car for Association business; and
- d) Accidental Death/Trip Insurance \$250,000.

Staff member coverage includes any suit brought by a third party for:

- a) Bodily injury liability, including participant and spectator bodily injury at events under the Association's jurisdiction, sponsorship of Directors;
- b) Property damage liability at events under the Association's jurisdiction, sponsorship and control;
- c) Advertising injury liability; and
- d) Libel or slander.

Coverage for errors and omissions of staff members is \$1,000,000.

Automobile:

Automobile liability insurance, which covers all staff members, is secondary coverage in the amount of \$1,000,000 when driving personal car for Association business. The insurance coverage is through a commercial carrier.

Property and Building:

Coverage is through a commercial carrier.

Worker's Compensation:

The Association purchases liability insurance for worker's compensation from a commercial carrier.

Unemployment Benefits:

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

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

10. SIGNIFICANT CONTINGENCIES—LITIGATION:

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

11. INTEREST IN SOUTH DAKOTA COMMUNITY FOUNDATION:

Permanent, irrevocable transfers have been made from the Association to the endowment fund maintained by the South Dakota Community Foundation (Foundation). The Association retains no rights to the principal. The endowment was established on April 22, 2013. The expectation is the earnings from the endowment will be distributed to the Association. Distributed income from the fund will be made available for distribution not less often than annually, which may be on an annualized basis, or calendar year basis, or a portion of either, as determined by the Directors of the Foundation. The total amount contributed for the fiscal year 2017 was \$22,985.00. The Association received and distributed \$8,850.00 from the fund in fiscal year 2017. No amount was available for distribution at June 30, 2017.

The activity of the Foundation's Association Fund for fiscal year 2017 is as follows:

Beginning Balance as of July 1, 2016	\$ 310,471.98
Additions:	
Contributions – Nonspendable	22,985.00
Dividend & Interest Income (Undistributed)	4,304.77
Capital Gain/Loss – Unrealized	35,734.27
Subtractions:	
Administrative Fees	(3,112.94)
Distribution to the Association	(8,850.00)
Capital Gain/Loss – Realized	(8.34)
Ending Balance as of June 30, 2017	<u>\$ 361,524.74</u>

12. PENSION NOTE:

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provide retirement, disability, and survivor 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://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A, Class B Public Safety and Class B Judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter 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 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% to 99.9%, indexed with the CPI
 - 90.0% to 99.9% funded--2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded --2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% --2.1% COLA

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

Contributions:

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

Year	Amount
2017	\$ 42,075.84
2016	\$ 43,167.00
2015	\$ 39,813.00

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

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

Proportionate share of pension liability	\$ 4,105,668.97
Less proportionate share of net pension restricted for pension benefits	<u>3,977,863.02</u>
Proportionate share of net pension liability	<u>\$ 127,805.95</u>

At June 30, 2017, the Association reported a liability of \$127,805.95 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was based on a projection of the Association District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016 the Association's proportion was 0.0378359% which is an increase of 0.0014913% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Association recognized pension expense of \$90,640.26. At June 30, 2017 the Association reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience	\$ 44,492.09	\$
Changes in assumption	76,549.71	
Net difference between projected and actual earnings on pension plan investments	142,163.42	
Changes in proportion and difference between Association contributions and proportionate share of contributions	6,549.14	5,530.40
Association contributions subsequent to the measurement date	<u>42,075.84</u>	
TOTAL	<u>\$ 311,830.19</u>	<u>\$ 5,530.40</u>

\$42,075.84 reported as deferred outflow of resources related to pensions resulting from Association contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30,	
2018	\$ 72,069.13
2019	44,008.60
2020	89,562.72
2021	<u>58,583.50</u>
TOTAL	<u>\$ 264,223.95</u>

Actuarial Assumptions:

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

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

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate or Return</u>
Global Equity	58.0%	4.5%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	100%	

Discount Rate:

The discount rate used to measure the total pension liability was 7.25 through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions 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.

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

The following presents the Association'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 Association's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Association's proportionate share of the net pension liability (asset)	\$ 715,200.41	\$ 127,805.95	\$ (351,277.31)

Pension Plan Fiduciary Net Position:

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

13. FAIR VALUE MEASUREMENTS:

Accounting standards define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three-level fair value hierarchy is defined as follows:

Level One: observable inputs such as quoted market prices for identical assets or liabilities in active markets. The types of assets and liabilities included in Level One are highly liquid and actively traded instruments with quoted market prices.

Level Two: inputs include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. The types of assets and liabilities included in Level Two are typically either comparable to actively traded securities or priced with models using observable inputs.

Level Three: inputs are based on prices or valuation techniques that are unobservable. These types of assets and liabilities require significant management judgment or estimation.

The following table presents the assets measured at fair value on a recurring basis as of June 30, 2017, on the accompanying statement of net position by the three-level fair value hierarchy. No liabilities are measured at fair value. The Association has no assets or liabilities measured on a non-recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Exchange-traded Funds	\$ 287,246.82	\$ 287,246.82	\$	\$
Total investments by fair value level	<u>287,246.82</u>	<u>\$ 287,246.82</u>	<u>\$ 0</u>	<u>\$ 0</u>
Investments measured at the net asset value (NAV)				
Mutual Funds	991,824.61			
Investment Account	<u>102,321.32</u>			
Total investments measured at the NAV	1,094,145.93			
Total investments measured at the fair value	<u>\$ 1,381,392.75</u>			

At each measurement date, the Association estimates the fair value of the financial instruments using various valuation techniques. The Association utilizes, to the extent available, quoted market prices in active markets or observable market inputs in estimating the fair value of investments. When quoted market prices or observable market inputs are not available, the Association utilizes valuation techniques that rely on unobservable inputs to estimate the fair value of investments. The following describes the valuation techniques used to determine the fair value of investments held as of June 30, 2017. Exchange-traded funds classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets. Mutual funds are

valued at the net asset value per share as determined by the investment broker. The investment account is valued at the net asset value per share as determined by independent valuation firms.

14. SUBSEQUENT EVENTS:

On August 17, 2017, the South Dakota High School Activities Association Board (Association) unanimously approved to amend the South Dakota Community Foundation (SDCF) Fund Agreement to transfer the Agreement responsibilities to the South Dakota High School Activities Association Foundation Inc. (Foundation). By doing so, the Association no longer has a beneficial interest in the assets held by the SDCF. On June 30, 2017, the value of the Association's asset was \$361,524.74 (see Note 11.) however; as of July 1, 2017 this will be an asset of the Foundation.

15. RELATED PARTY TRANSACTIONS:

The South Dakota High School Activities Association Foundation Inc. (Foundation) is a South Dakota non-profit corporation formed on August 10, 2017 to assist and support those educationally based activities programs sponsored by its member schools. The South Dakota High School Activities Association (Association) provides certain staff services and related support to the Foundation with Association funds, including but not limited to the following. For the fiscal year ended June 30, 2017, the Association paid attorney fees amounting to \$1,455.00 to assist in the Foundation's incorporation. Association staff assisted the Foundation by preparing and submitting forms to the IRS for an employer identification number, etc. costing the Association \$275.00. The Association incurred other, less significant costs. The Association also supports the Foundation through their website and offers a benefit package to donors of the Foundation (event program advertisement, event tickets, etc. depending on donation level).

Schedule of Required Supplementary Information
SCHEDULE OF THE ASSOCIATION CONTRIBUTIONS

South Dakota Retirement System

Last 10 Fiscal Years

(Dollar amounts in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 42,076	\$ 43,167	\$ 39,813
Contributions in relation to the contractually required contribution	<u>42,076</u>	<u>43,167</u>	<u>39,813</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Association's covered-employee payroll	\$ 701,265	\$ 719,450	\$ 663,550
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%

Schedule of Required Supplementary Information
SCHEDULE OF THE ASSOCIATION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
South Dakota Retirement System
Last 10 Fiscal Years*
(Dollar amounts in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Association's proportion of the net pension liability (asset)	0.0378359%	0.0363446%	0.0392004%
Association's proportionate share of net pension liability (asset)	\$ 127,806	\$ (154,148)	\$ (282,423)
Association's covered-employee payroll	\$ 719,450	\$ 663,550	\$ 685,507
Association's proportionate share of the net pension asset as a percentage of its covered-employee payroll	17.76%	23.23%	41.20%
Plan fiduciary net position as a percentage of the total pension asset	96.9%	104.1%	107%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension (liability) asset which is 6/30. Until a full 10-year trend is compiled, the Association will present information for those years for which information is available.

SOUTH DAKOTA HIGH SCHOOL ACTIVITIES ASSOCIATION
SCHEDULE OF BUDGETED AND ACTUAL REVENUES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Revenue	Actual Revenue	Variance Favorable/ (Unfavorable)
Activities:			
Boys' "B" Basketball	\$ 120,000.00	\$ 110,787.00	\$ (9,213.00)
Boys' "A" Basketball	135,000.00	180,855.00	45,855.00
Girls' "B" Basketball	72,000.00	75,784.00	3,784.00
Girls' "A" Basketball	70,000.00	70,701.00	701.00
Combined Boys' and Girls' "AA" Basketball	200,000.00	145,327.50	(54,672.50)
Combined Boys' "A" and "B" Wrestling	210,000.00	252,440.00	42,440.00
Football Finals in the Dome	215,000.00	219,879.00	4,879.00
Gymnastics Tournament	10,000.00	12,133.00	2,133.00
State Track and Field Meet	100,000.00	121,559.00	21,559.00
Cross Country	24,000.00	19,591.00	(4,409.00)
Volleyball B	38,000.00	31,908.00	(6,092.00)
Volleyball A	35,000.00	30,086.00	(4,914.00)
Volleyball AA	25,000.00	28,549.00	3,549.00
Soccer	12,000.00	17,262.00	5,262.00
All-State Chorus and Orchestra	45,000.00	73,789.00	28,789.00
Show Choir	10,000.00	11,670.00	1,670.00
All-State Band	10,000.00	9,360.00	(640.00)
Cheer and Dance	21,000.00	20,938.00	(62.00)
All-State Jazz Band	2,000.00	1,960.00	(40.00)
Total Activities	<u>1,354,000.00</u>	<u>1,434,578.50</u>	<u>80,578.50</u>
TV Contract - FB/BB/VB/WR	63,500.00	63,500.00	-
Ball Bids	53,500.00	53,500.00	-
Corporate Partner	300,000.00	300,000.00	-
Total	<u>417,000.00</u>	<u>417,000.00</u>	<u>-</u>
Sub-State Events			
Girls' Basketball	80,000.00	82,467.41	2,467.41
Boys' Basketball	125,000.00	119,139.85	(5,860.15)
Football Play-offs	92,000.00	96,376.60	4,376.60
Wrestling	12,000.00	11,410.40	(589.60)
Volleyball	60,000.00	56,952.05	(3,047.95)
Total Sub-State Events	<u>369,000.00</u>	<u>366,346.31</u>	<u>(2,653.69)</u>
Fees			
Fine Arts/Sports Fee	150,000.00	155,580.00	5,580.00
Subscription/Postage Fee	5,580.00	5,580.00	-
Total Fees	<u>155,580.00</u>	<u>161,160.00</u>	<u>5,580.00</u>
General			
Music Supplies	150.00		(150.00)
Music Ad Revenue	1,000.00		(1,000.00)
Music Programs/Shirts	2,000.00	194.00	(1,806.00)
Coaches Clinic	750.00	920.00	170.00
Rule Books/Publications	27,000.00	25,893.00	(1,107.00)
Registration of Officials	73,000.00	76,995.98	3,995.98
Penalties and Fines	8,000.00	7,365.00	(635.00)
Earnings on Deposits and Investments	375.00	1,210.22	835.22
COBRA Reimbursement	10,821.00	9,919.03	(901.97)
Miscellaneous	20,000.00	17,982.48	(2,017.52)
Ballots/Publications	50.00		(50.00)
Sale of Medals	1,000.00	2,204.90	1,204.90
Speech Ad Revenue	2,000.00	400.00	(1,600.00)
Speech Programs/Shirts	4,000.00	764.25	(3,235.75)
Contributions and Donations	30,000.00	0.00	(30,000.00)
Grant from SD Community Foundation		8,850.00	8,850.00
Contributions for SD Community Foundation	10,000.00	23,485.00	13,485.00
Total General	<u>190,146.00</u>	<u>176,183.86</u>	<u>(13,962.14)</u>
GRAND TOTAL	<u>\$ 2,485,726.00</u>	<u>\$ 2,555,268.67</u>	<u>\$ 69,542.67</u>

SOUTH DAKOTA HIGH SCHOOL ACTIVITIES ASSOCIATION
SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Expenditures	Actual Expenditures	Variance Favorable/ (Unfavorable)
Regular Salaries	\$ 701,650.00	\$ 710,356.31	\$ (8,706.31)
Temporary Salaries	2,000.00	871.60	1,128.40
Meal Reimbursement	575.00		575.00
Total Salaries	<u>704,225.00</u>	<u>711,227.91</u>	<u>(7,002.91)</u>
Social Security	53,700.00	54,018.84	(318.84)
Retirement	42,100.00	47,381.76	(5,281.76)
Hospital Insurance	159,500.00	156,551.96	2,948.04
Dental Insurance	4,850.00	5,137.60	(287.60)
Worker's Compensation	6,208.00	6,208.00	-
Sick Leave Severance	0.00	29,573.39	(29,573.39)
Vacation Leave Severance	0.00	23,658.71	(23,658.71)
Severance Pay	22,140.00	52,896.00	(30,756.00)
Post Employment	4,800.00	4,800.00	-
Total Employee Benefits	<u>293,298.00</u>	<u>380,226.26</u>	<u>(86,928.26)</u>
Legal Costs and Fees/Lobbyist	25,000.00	18,347.50	6,652.50
Retirement/Investment Advisor	1,300.00	590.00	710.00
Audit	15,000.00	14,625.00	375.00
Clinicians-Coaches Clinic	15,000.00	14,836.46	163.54
Test Supervisor	250.00		250.00
Clinicians/Judges/Cheerleaders	200.00	100.00	100.00
Appeals Committees	1,000.00	207.72	792.28
Section V Meeting	2,500.00	921.00	1,579.00
Utilities	7,500.00	9,120.82	(1,620.82)
Maintenance and Repairs	8,000.00	8,343.41	(343.41)
Technology	10,000.00	8,618.01	1,381.99
Staff Travel	67,200.00	35,734.05	31,465.95
Board of Control Travel	22,000.00	22,059.86	(59.86)
Advisory/Ad Hoc Com/Officials	20,000.00	20,518.38	(518.38)
Dues-Regional Wrestling Assoc.	700.00	720.00	(20.00)
Dues-Regional Basketball Assoc.	5,000.00	4,845.00	155.00
Dues-Regional Volleyball Assoc.	2,300.00	2,200.00	100.00
Dues-Football Assoc.	4,300.00	4,140.00	160.00
Dues-Gymnastics Assoc.	300.00	340.00	(40.00)
NASO Travel	2,000.00	2,351.48	(351.48)
Telephone	9,000.00	8,009.69	990.31
Postage and Permit	19,000.00	17,973.66	1,026.34
United Parcel Service	5,200.00	5,015.14	184.86
Commercial Printing	32,000.00	41,088.20	(9,088.20)
Printing-Coaches Clinic	1,000.00	874.00	126.00
Printing-Officials	7,500.00		7,500.00
Catastrophic/Liability Insurance	173,500.00	172,688.40	811.60
Miscellaneous	12,000.00	18,746.54	(6,746.54)
Staff In-Service	500.00	374.00	126.00
State Officials Council	12,000.00	11,604.00	396.00
Rule Interpreter-Indianapolis	1,200.00		1,200.00
Internet/Cable	2,700.00	2,368.51	331.49
State Event Directors Reception	2,000.00	1,839.75	160.25
NFOA Membership	20,000.00	20,181.00	(181.00)
Media	1,500.00	277.64	1,222.36
Officials Gifts	2,700.00	2,227.68	472.32
State Event Directors/Corp Gifts	3,500.00	5,111.12	(1,611.12)
Midwest Officials Summit	1,500.00	418.04	1,081.96
FB Rules Meeting	1,300.00	1,091.83	208.17
SDIAAA	7,000.00	7,000.00	-
NF Summer Meeting	30,000.00	23,368.76	6,631.24
NF Winter Meeting	3,500.00	3,099.85	400.15
NF Legal Meeting	2,800.00	1,952.82	847.18
NFHS-Debate Topic Meeting	1,500.00	1,424.58	75.42
NFHS-Music/Speech Meeting	1,300.00	298.47	1,001.53
Snow Removal/Lawn	2,500.00	1,999.67	500.33
Accounting and Tax	1,400.00	4,500.00	(3,100.00)
Technology Conference	1,000.00		1,000.00
State Officials Coordinator	14,600.00	12,928.05	1,671.95
Total Purchased Services	<u>583,250.00</u>	<u>535,080.09</u>	<u>48,169.91</u>
Office Supplies	6,200.00	8,107.63	(1,907.63)
Custodial Supplies	2,000.00	1,207.85	792.15
Subscriptions	1,500.00	2,436.91	(936.91)
NF News/NIAAA Subscriptions	100.00		100.00

SOUTH DAKOTA HIGH SCHOOL ACTIVITIES ASSOCIATION
SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Expenditures	Actual Expenditures	Variance Favorable/ (Unfavorable)
Rule Books and Exams	43,000.00	41,897.77	1,102.23
Distinguished Service Awards	500.00	696.50	(196.50)
Inventory of Medals	1,000.00	1,169.00	(169.00)
Total Supplies and Materials	<u>54,300.00</u>	<u>55,515.66</u>	<u>(1,215.66)</u>
NF Dues/Foundation	2,500.00	2,500.00	-
General Liability/Participant Liability/Auto	17,300.00	17,216.00	84.00
Surety Bond	700.00	626.00	74.00
Insurance Office and Contents	2,500.00	4,940.46	(2,440.46)
Car Liability Insurance	10,600.00	10,529.00	71.00
CSIET	600.00		600.00
D&O Liability Insurance	5,400.00	5,144.00	256.00
Excess Liability Insurance	2,500.00		2,500.00
Travel Accident	1,000.00	1,000.00	-
Commercial Crime	300.00		300.00
Moving Expense	1,400.00		1,400.00
Expense of Grant from SD Community Foundation - (defibrillators)		8,850.00	(8,850.00)
Contributions to SD Community Foundation	10,000.00	23,485.00	(13,485.00)
Total Other Objects	<u>54,800.00</u>	<u>74,290.46</u>	<u>(19,490.46)</u>
Classes for Cheer/Spirit Coaches	125.00		125.00
Classes for Cheer/Spirit Officials	150.00		150.00
Total Coaches Education Program	<u>275.00</u>	<u>-</u>	<u>275.00</u>
Officials Observation	<u>9,500.00</u>	<u>8,707.88</u>	<u>792.12</u>
Boys' "B" Basketball	45,875.00	46,834.99	(959.99)
Boys' "A" Basketball	84,400.00	132,365.12	(47,965.12)
Girls' "B" Basketball	35,250.00	36,057.97	(807.97)
Girls' "A" Basketball	42,200.00	53,110.03	(10,910.03)
Combined Boys' and Girls' "AA" Basketball	162,200.00	101,368.58	60,831.42
Combined "A" and "B" Wrestling	101,250.00	119,954.53	(18,704.53)
Gymnastics	21,350.00	20,185.33	1,164.67
Track and Field	62,800.00	67,022.89	(4,222.89)
Golf	19,500.00	19,196.48	303.52
Tennis	12,200.00	13,464.54	(1,264.54)
Cross Country	10,600.00	11,028.94	(428.94)
Football Play-Offs	73,350.00	74,120.68	(770.68)
Volleyball B	31,100.00	30,551.71	548.29
Volleyball A	30,600.00	33,884.10	(3,284.10)
Volleyball AA	33,120.00	35,857.58	(2,737.58)
Cheer and Dance	17,675.00	17,033.60	641.40
Soccer	16,500.00	13,179.63	3,320.37
Student Council	3,700.00	1,912.83	1,787.17
Oral Interp	17,200.00	11,701.19	5,498.81
One Act Play	14,300.00	16,626.59	(2,326.59)
Debate	12,230.00	17,224.06	(4,994.06)
All-State Jazz Band	11,750.00	11,985.12	(235.12)
All-State Chorus and Orchestra	50,500.00	61,623.30	(11,123.30)
All-State Band	30,200.00	30,580.32	(380.32)
Music Miscellaneous	3,000.00	2,675.99	324.01
Journalism	6,200.00	4,380.59	1,819.41
Visual Arts	11,300.00	10,390.66	909.34
Show Choir	14,300.00	7,611.58	6,688.42
Total Events	<u>974,650.00</u>	<u>1,001,928.93</u>	<u>(27,278.93)</u>
Investment Expense	<u>0.00</u>	<u>7,317.70</u>	<u>(7,317.70)</u>
GRAND TOTAL	<u>\$ 2,674,298.00</u>	<u>\$ 2,774,294.89</u>	<u>\$ (99,996.89)</u>

SOUTH DAKOTA HIGH SCHOOL ACTIVITIES ASSOCIATION
NOTES TO THE SCHEDULES OF BUDGET AND ACTUAL REVENUES AND EXPENDITURES
June 30, 2017

Note 1: Purpose of the Schedule

Article IV of the South Dakota High School Activities Association's (Association) Constitution requires the Board of Directors to adopt a budget for each fiscal year.

Note 2: Significant Accounting Policies

- A. Reporting Entity – The accompanying schedules include primary activities, events, fees, and general areas administered by the Association for the fiscal year ended June 30, 2017.
- B. Basis of Accounting – The information presented in the Schedules of Budgeted and Actual Revenues and Expenditures are presented on the cash basis of accounting. The Association's basic financial statements are reported on the accrual basis of accounting and, therefore, the schedule's data may not be directly traceable to the basic financial statements.
- C. Sub-State Events – School Districts throughout the State host sub-state events. The School Districts collect the revenue and subtract from that revenue the expenditures applicable to hosting the sub-state events. The School Districts then remit payment to the Association for the Association's share of the sub-state proceeds. The payment received by the Association is reflected in the Schedule of Budgeted and Actual Revenues. Generally accepted accounting principles require the total revenue earned and the total expenditures incurred be reported on the accrual basis of accounting in the basic financial statements, therefore, the schedule's data may not be directly traceable to the basic financial statements.
- D. Contributions to SD Community Foundation – Reported as an increase in the Beneficial Interest in Assets Held by SD Community Foundation on the Statement of Net Position in accordance with generally accepted accounting principles. In the Schedule of Budgeted and Actual Expenditures these contributions are reported as expenditures.

SOUTH DAKOTA

HIGH SCHOOL ACTIVITIES ASSOCIATION



804 N. Euclid / PO Box 1217 - Pierre SD 57501
Telephone: 605-224-9261 – Fax: 224-9262

Dr. Daniel Swartos
Executive Director

Finding No. 2017-001: Financial Statement Reporting Errors

Corrective Action Plan: The South Dakota High School Activities Association will implement additional procedures to properly report financial statements by following GASB codification and using resources available such as the Department of Legislative Audit and local CPA's.

Contact Person: Isaac Jahn, Finance Director

Anticipated Date: August, 2018

Finding No. 2017-002: Account Receivable Records Not Maintained

Corrective Action Plan: The South Dakota High School Activities Association will record all corporate sponsor liabilities at the beginning of the fiscal year then track accounts receivable throughout the year. Copies of corporate sponsor contracts and payment structures have been made available to the proper parties within the South Dakota High School Activities Association.

Contact Person: Isaac Jahn, Finance Director

Anticipated Date: July, 2018