

**Lincoln County School
District No. 2**

Financial Report
June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Lincoln County School District No. 2
Afton, Wyoming 83110

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 Lincoln County School District No. 2, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 opinions 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 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County School District No. 2 as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity 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, budgetary comparison information, and schedules of employer's share of net pension liability and employer contributions-WRS public employees' pension plan on pages 4 through 11 and 45 through 53 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lincoln County School District No. 2's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was 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 Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2017, on our consideration of Lincoln County School District's internal control over financial reporting and our tests of its compliance with certain provisions of 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 Lincoln County School District's internal control over financial reporting and compliance.

Searle Hart + associates PLLC

Rexburg, Idaho

November 9, 2017

Lincoln County School District No. 2
Management's Discussion and Analysis
June 30, 2017

This section of the District's annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2017. It should be read in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

- The District's overall financial condition increased over the prior year.
- The District's ending net position was approximately \$50.1 million.
- The cost of basic programs in the governmental activities decreased from \$48.3 to \$46.7 million.
- Revenues in the governmental activities increased remain unchanged at \$48.9 million.
- The net position for governmental activities decreased by approximately \$2.1 million.
- The net position for business-type activities decrease by approximately \$93 thousand.
- The District's enrollment (ADM) increased 51.79 students district-wide per WDE 100 report(s) fiscal year comparison.

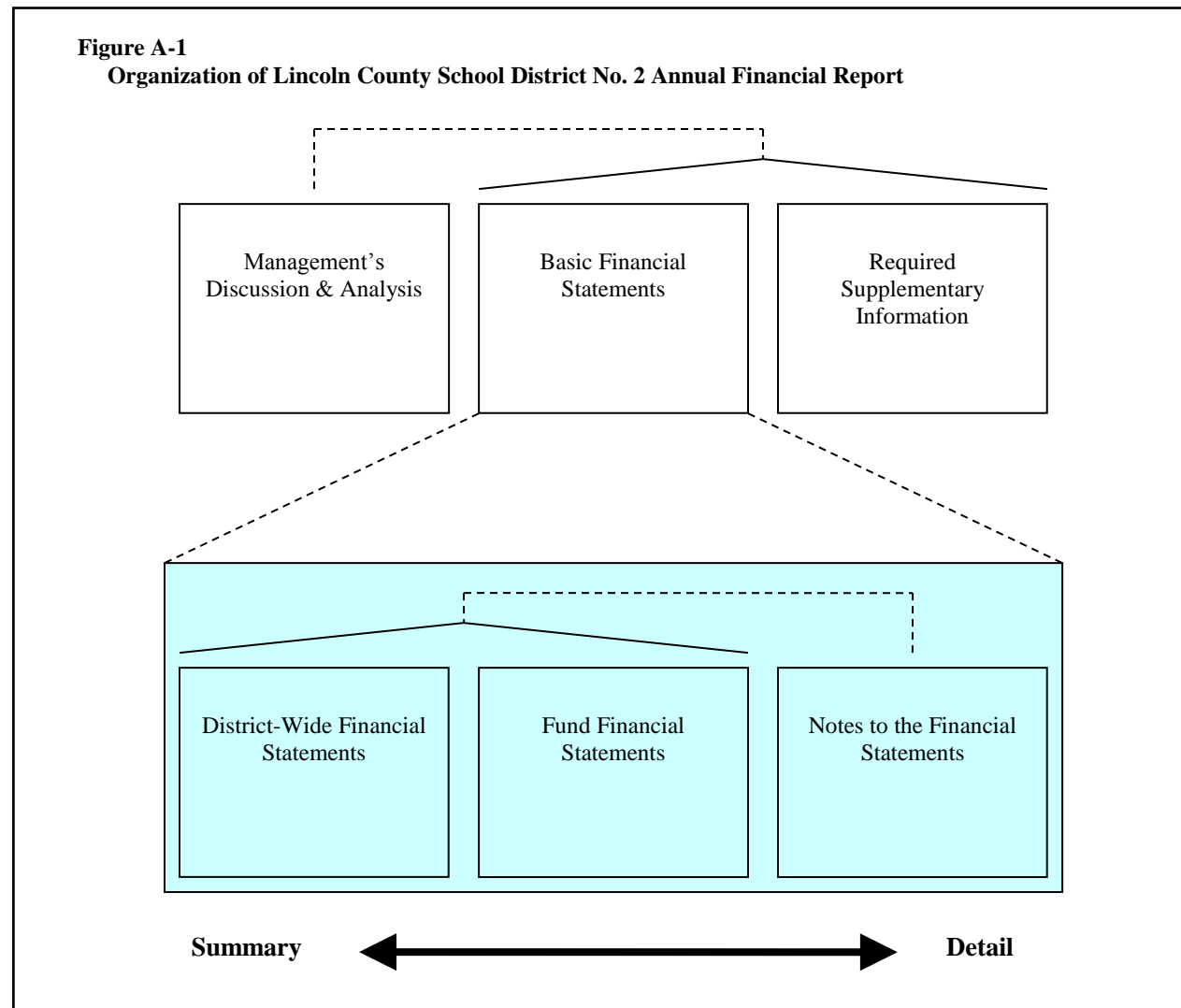
Overview of the Financial Statements

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

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
- The *governmental funds statements* provide information that shows how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Proprietary funds* statements offer *short-term* and *long-term* financial information about the activities the District operates *like businesses*, such as food services.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.

Lincoln County School District No. 2
Management's Discussion and Analysis, Continued
June 30, 2017

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



Lincoln County School District No. 2
Management's Discussion and Analysis, Continued
June 30, 2017

Figure A-2 summarizes the major features of the District's basic financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

| Figure A-2 Major Features of the District-Wide and Fund Financial Statements | | | | |
|---|--|---|--|---|
| | | Fund Financial Statements | | |
| | District-Wide Statements | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire District (except fiduciary funds) | The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance | Activities the District operates similarly to private businesses, such as food services | Instances in which the District administers resources on behalf of someone else, such as student activities and employee monies |
| 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 fund net position • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net position |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial 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, short-term and long-term | Generally assets expected to be used and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, short-term and long-term | All assets and liabilities, both financial and capital, short-term and long-term |
| Type of inflow/outflow information | All revenues and expenses during the year, regardless of when cash is received | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable | All revenues and expenses during the year, regardless of when cash is received | All additions and deletions during the year, regardless of when cash is received or paid |

Lincoln County School District No. 2
Management's Discussion and Analysis, Continued
June 30, 2017

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position – District-Wide includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities – District-Wide regardless of when cash is received or paid. The two district-wide statements report the District's *net position* and how they have changed. Net position (the difference between the District's assets and liabilities) is one way to measure the District's financial health or financial position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's enrollment and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included in this category, such as regular, vocational, and special education, pupil and staff services, central and school administration and transportation. Property taxes and the State Foundation Program finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's food services are included in this category.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, rather than the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Certain funds are required by state law and by bond covenants, while the District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has three types of funds:

Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional reconciling statements explain the relationship (or differences) between them.

Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. The District's *enterprise fund* (one type of proprietary fund) is the same as its business-type activities but provides more detail and additional information, such as cash flows.

Lincoln County School District No. 2
Management's Discussion and Analysis, Continued
June 30, 2017

Fund Financial Statements, Continued

Fiduciary funds: The District is the trustee, *or fiduciary*, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis for the District as a Whole

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$50.1 million at the close of the most recent fiscal year.

- The largest portion of the District's net position (91.5%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment net of accumulated depreciation), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities.
- An additional portion of the District's net position (less than 1%) represents resources that are subject to external restrictions on how they may be used. The restricted balance is for major maintenance projects and future capital outlays.
- The remaining balance of unrestricted net position may be used to meet the District's obligations to students, employees and creditors and to honor the next year's budget.

At June 30, 2017 district was able to report positive balances in all three categories of net position. The same situation held true for the prior fiscal year.

Lincoln County School District No. 2
Management's Discussion and Analysis, Continued
June 30, 2017

Financial Analysis for the District as a Whole, Continued

Table 1 shows a summary of the District's Statement of Net Position as of June 30, 2016 and 2017.

| Table 1 (in thousands) | | | | | | |
|--|--------------------------------|-------------|---------------------------------|-------------|------------------------------|-------------|
| Summary Statement of Net Position as of June 30, 2017 | | | | | | |
| | Governmental Activities | | Business-Type Activities | | Total School District | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Current and other assets | \$ 9,214 | \$ 8,660 | \$(40) | \$37 | \$ 9,174 | \$ 8,697 |
| Noncurrent assets | 70,341 | 72,040 | 31 | 32 | 70,372 | 72,072 |
| Total assets | 79,555 | 80,700 | (9) | 69 | 79,546 | 80,769 |
| Deferred outflows | 6,278 | 9,986 | 90 | 117 | 6,368 | 10,103 |
| Current liabilities | 650 | 2,345 | 44 | 24 | 694 | 2,369 |
| Long-term liabilities | 34,170 | 31,516 | 447 | 426 | 34,617 | 31,942 |
| Total liabilities | 34,820 | 33,861 | 491 | 450 | 35,311 | 34,311 |
| Deferred inflows | 836 | 4,529 | 12 | 65 | 848 | 4,594 |
| Net position: | | | | | | |
| Invested in capital assets net of related debt | 70,341 | 72,040 | 31 | 32 | 70,372 | 72,072 |
| Restricted | 655 | 811 | - | - | 655 | 811 |
| Unrestricted | (20,819) | (20,555) | (453) | (361) | (21,272) | (20,916) |
| Total net position | \$ 50,177 | \$ 52,296 | \$(422) | \$(329) | \$49,755 | \$51,967 |

The District's total net position decreased by approximately \$2.1 million during the current year. The decrease is mostly due to Government Accounting Standards Board statement 67 and 68. Statement 67 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Statement No. 67, *Financial Reporting for Pension Plans*, revises existing standards of financial reporting

Lincoln County School District No. 2
Management's Discussion and Analysis, Continued
June 30, 2017

for most pension plans. Statement 68 and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

Restricted net position increased by approximately \$355 thousand during the current year. The increase resulted primarily from change in liabilities.

Governmental Activities

The State Foundation Funding Guarantee is based largely on Average Daily Membership (ADM). One student attending the schools in the District for the entire school year counts as one ADM. The State of Wyoming provides a funding guarantee based on the State Foundation Program (the funding model used by the State to determine school district funding levels). If local resources such as property taxes and tuition revenues charged for out-of-state students do not reach the funding guarantee provided by the State, the State makes up the difference with an entitlement grant. In the current year, the State Foundation entitlement grant totaled approximately 65.9% of the District's total funding for governmental activities. Other highlights include:

- The cost of all *governmental* activities this year was \$46.7 million.
- The District recognized \$921 thousand from the School Facilities Commission that was used to pay for design and construction work on new school facilities, or capital improvements to existing facilities.
- The District received approximately \$1.8 million from the state for major maintenance projects for school facilities.
- In addition to the amounts identified above, the federal and state governments subsidized certain programs with additional grants and contributions \$2.99 million.
- District and state taxpayers financed most of the District's costs. This portion of governmental activities was financed with \$8.97 million in property taxes and \$31.46 million of unrestricted state aid based on the State Foundation Program.
- Investment earnings and miscellaneous revenues totaled approximately \$37,727.

Business-Type Activities

Revenues of the District's business-type activities (i.e., its school lunch program) were \$1,030,799 with expenses of \$1,162,960.

Financial Analysis of the District's Funds

The General Fund increased its fund balance by \$1,629,692 to a total fund balance of \$7,908,250. The district conservatively estimated revenues, and stayed within budget constraints for expenses, overall a good year.

The Debt Service Fund carried a held reserve fund balance of \$665. The District has completed paying its general obligation bonds. The fund balance remaining will be retained at the county level to cover any protested taxes. The bond account will be closed as of December 1, 2017 and cash redeemed to the district.

Lincoln County School District No. 2
Management's Discussion and Analysis, Continued
June 30, 2017

The fund balance for the Major Maintenance Fund increased by \$10,923, still holding a fund balance of \$654,890. Major Maintenance fund balance can be carried year-to-year.

Financial Analysis of the District's Funds, Continued

The fund balance for the Capital Construction Fund is retainage held for the District Administration Office. Project will be closed January 1, 2018. Majority of the funding for these projects comes primarily from the Wyoming School Facilities Commission. No new construction started to date.

Local, State and Federal Grants Funds account for various federal and state grants. Federal grant monies are earned by the District when the District expends money on the programs related to the grants; therefore, federal revenues equal federal expenditures, with any fund balance being related to state grant monies.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2017 fiscal year, the District had invested approximately \$70.34 million in a broad range of capital assets, including school buildings, athletic facilities, land, vehicles, and equipment. This amount represents a net decrease of approximately \$1.70 million from June 30, 2016.

Long-Term Debt

At year-end, the District had no general obligation bonds outstanding.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of one circumstance that could significantly affect its future financial health:

- Augenblick, Palaich and Associates (APA) was chosen by the Select Committee on School Finance Recalibration to conduct a study of the state's educational program and funding model. APA believes that incorporating a strong Wyoming perspective is essential to the study. APA will gather feedback from stakeholders and report to the legislation to show how educational programs, standards and requirements could be expanded or strengthened. The study will show areas of duplication or areas that are unnecessary, the clarity of expectations, and how the requirements of the educational program impact staffing and other district costs. Similarly, the study to the current funding model include the model's strengths and weaknesses, components that are working well, elements that may need attention, and potential model improvements. The results of this recalibration could have a significant impact on the District's finances (either for good or bad), depending on the results of the process.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Lincoln County School District No. 2, 360 Jefferson Avenue, Afton, Wyoming 83110.

Basic Financial Statements

LINCOLN COUNTY SCHOOL DISTRICT #2
STATEMENT OF NET POSITION
June 30, 2017

| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES |
|---|------------------------------------|-------------------------------------|
| ASSETS | | |
| Cash and equivalents | \$ 7,542,474 | \$ 200 |
| Cash in custody of County Treasurer | 665 | - |
| Accounts receivable | 217,672 | - |
| Taxes receivable | 152,729 | - |
| Internal Balances | 79,298 | (79,239) |
| Due from Other Governmental Agencies | 1,221,446 | - |
| Inventories | - | 39,089 |
| Capital assets | | |
| Construction in progress | - | - |
| Land and improvements not being depreciated | 2,063,251 | - |
| Buildings | 109,950,669 | - |
| Equipment and vehicles | 10,591,009 | 306,244 |
| Less: accumulated depreciation | (52,263,316) | (275,100) |
| Total Capital Assets | 70,341,613 | 31,144 |
| TOTAL ASSETS | 79,555,897 | (8,806) |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Expenses unavailable for use | 6,278,011 | 90,006 |
| LIABILITIES | | |
| Accounts payable and accrued expenses | 531,395 | 6,797 |
| Salaries and benefits payable | 112,280 | - |
| Deferred Revenues | 6,804 | 37,582 |
| Long-term liabilities | | |
| Due within one year | | |
| Compensated absences | 894,612 | - |
| Due in more than one year | | |
| Compensated absences | 2,087,427 | - |
| Net pension liability | 31,188,004 | 447,131 |
| TOTAL LIABILITIES | 34,820,522 | 491,510 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Revenue unavailable for use | 836,060 | 11,986 |
| NET POSITION | | |
| Invested in capital assets, net of related debt | 70,341,613 | 31,144 |
| Restricted for: | | |
| Capital construction | - | - |
| Major maintenance | 654,890 | - |
| Unrestricted | (20,819,177) | (453,440) |
| TOTAL NET POSITION | \$ 50,177,326 | \$ (422,296) |

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

**TOTAL
PRIMARY
GOVERNMENT**

| | |
|----|--------------|
| \$ | 7,542,674 |
| | 665 |
| | 217,672 |
| | 152,729 |
| | 59 |
| | 1,221,446 |
| | 39,089 |
| | - |
| | 2,063,251 |
| | 109,950,669 |
| | 10,897,253 |
| | (52,538,416) |
| | <hr/> |
| | 70,372,757 |
| | <hr/> |
| | 79,547,091 |
| | <hr/> |
| | 6,368,017 |
| | <hr/> |
| | 538,192 |
| | 112,280 |
| | 44,386 |
| | 894,612 |
| | 2,087,427 |
| | 31,635,135 |
| | <hr/> |
| | 35,312,032 |
| | <hr/> |
| | 848,046 |
| | <hr/> |
| | 70,372,757 |
| | - |
| | 654,890 |
| | (21,272,617) |
| | <hr/> |
| \$ | 49,755,030 |
| | <hr/> |

LINCOLN COUNTY SCHOOL DISTRICT #2
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> |
|---|----------------------|---------------------------------|---|------------------------------------|
| Governmental Activities: | | | | |
| Regular instruction | \$ 21,329,906 | \$ - | \$ 868,931 | \$ (20,460,975) |
| Special instruction | 7,683,659 | - | 378,701 | (7,304,958) |
| Vocational instruction | 63,763 | - | 63,763 | - |
| Total instruction | 29,077,328 | - | 1,311,395 | (27,765,933) |
| Pupil services | 2,955,003 | - | - | (2,955,003) |
| Staff services | 2,638,471 | - | 1,055,781 | (1,582,690) |
| Central administration | 427,249 | - | - | (427,249) |
| School administration | 2,232,881 | - | - | (2,232,881) |
| Business administration | 444,462 | - | - | (444,462) |
| General maintenance | 4,629,415 | - | - | (4,629,415) |
| Transportation services | 3,699,185 | - | - | (3,699,185) |
| Food services | 1,930 | - | - | (1,930) |
| Community support | 5,669 | - | - | (5,669) |
| Depreciation | 4,238,492 | - | - | (4,238,492) |
| Total support services | 21,272,757 | - | 1,055,781 | (20,216,976) |
| TOTAL GOVERNMENTAL ACTIVITIES | 50,350,085 | - | 2,367,176 | (47,982,909) |
| Business-Type Activities: | | | | |
| Food services | 1,162,960 | 398,407 | 632,392 | |
| TOTAL BUSINESS-TYPE ACTIVITIES | 1,162,960 | 398,407 | 632,392 | |
| TOTAL SCHOOL DISTRICT | \$ 51,513,045 | \$ 398,407 | \$ 2,999,568 | (47,982,909) |
| General revenues: | | | | |
| Property taxes, levied for general purposes | | | | 8,970,118 |
| Other county sources | | | | 599,213 |
| Other local sources | | | | 1,590,693 |
| State and federal revenue | | | | 34,668,442 |
| Unrestricted investment earnings | | | | 42,509 |
| <i>Special item</i> - gain (loss) on sale of assets | | | | 32,972 |
| Transfers | | | | (39,129) |
| TOTAL GENERAL REVENUES | | | | 45,864,818 |
| Change in net position | | | | (2,118,091) |
| Net position - Beginning | | | | 52,295,417 |
| NET POSITION - Ending | | | | \$ 50,177,326 |

| <u>Business-Type Activities</u> | <u>Total Primary Government</u> |
|--|--|
| | \$ (20,460,975) |
| | (7,304,958) |
| | - |
| | <u>(27,765,933)</u> |
| | (2,955,003) |
| | (1,582,690) |
| | (427,249) |
| | (2,232,881) |
| | (444,462) |
| | (4,629,415) |
| | (3,699,185) |
| | (1,930) |
| | (5,669) |
| | <u>(4,238,492)</u> |
| | <u>(20,216,976)</u> |
| | <u>(47,982,909)</u> |
| <u>\$ (132,161)</u> | <u>(132,161)</u> |
| <u>(132,161)</u> | <u>(132,161)</u> |
| <u>(132,161)</u> | <u>(48,115,070)</u> |
| - | 8,970,118 |
| - | 599,213 |
| - | 1,590,693 |
| - | 34,668,442 |
| - | 42,509 |
| - | 32,972 |
| <u>39,129</u> | <u>-</u> |
| <u>39,129</u> | <u>45,903,947</u> |
| (93,032) | (2,211,123) |
| <u>(329,264)</u> | <u>51,966,153</u> |
| <u>\$ (422,296)</u> | <u>\$ 49,755,030</u> |

LINCOLN COUNTY SCHOOL DISTRICT #2
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

| | GENERAL FUND | DEBT SERVICE FUND | CAPITAL CONSTRUCTION FUND |
|--|---------------------|--------------------------|----------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 6,588,354 | \$ - | \$ 123,970 |
| Cash in custody of County Treasurer | - | 665 | - |
| Taxes receivable, net | 152,729 | - | - |
| Interfund receivable | 1,347,862 | - | - |
| Receivable from other governments | - | - | 44,488 |
| Other receivables | 96,070 | - | - |
| TOTAL ASSETS | 8,185,015 | 665 | 168,458 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Expenditures unavailable for use | - | - | - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 8,185,015 | \$ 665 | \$ 168,458 |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts payable | \$ 211,980 | \$ - | \$ 103,427 |
| Interfund payable | - | - | 65,031 |
| Deferred revenue | - | - | - |
| Other accrued expenses | 64,785 | - | - |
| TOTAL LIABILITIES | 276,765 | - | 168,458 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Expenditures unavailable for use | - | - | - |
| FUND BALANCES | | | |
| Restricted for: | | | |
| Construction, maintenance, and renovation | 1,500,000 | - | - |
| Assigned to: | | | |
| Major maintenance | - | - | - |
| Capital construction | - | 665 | - |
| Unassigned | 6,408,250 | - | - |
| TOTAL FUND BALANCES | 7,908,250 | 665 | - |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 8,185,015 | \$ 665 | \$ 168,458 |

| MAJOR MAINTENANCE FUND | LOCAL, STATE AND FEDERAL GRANTS | TOTAL GOVERNMENTAL FUNDS |
|------------------------------|---------------------------------------|--------------------------------|
| \$ 830,150 | \$ - | \$ 7,542,474 |
| - | - | 665 |
| - | - | 152,729 |
| - | - | 1,347,862 |
| - | 1,298,560 | 1,343,048 |
| - | - | 96,070 |
| 830,150 | 1,298,560 | 10,482,848 |
| - | - | - |
| \$ 830,150 | \$ 1,298,560 | \$ 10,482,848 |
| \$ 175,260 | \$ 40,728 | \$ 531,395 |
| - | 1,203,533 | 1,268,564 |
| - | 6,804 | 6,804 |
| - | 47,495 | 112,280 |
| 175,260 | 1,298,560 | 1,919,043 |
| - | - | - |
| - | - | 1,500,000 |
| 654,890 | - | 654,890 |
| - | - | 665 |
| - | - | 6,408,250 |
| 654,890 | - | 8,563,805 |
| \$ 830,150 | \$ 1,298,560 | \$ 10,482,848 |

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LINCOLN COUNTY SCHOOL DISTRICT #2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
June 30, 2017

| | |
|--|--------------|
| Total fund balance, governmental funds | \$ 8,563,805 |
|--|--------------|

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

| | |
|--------------------------|--------------|
| Historical Cost | 122,604,929 |
| Accumulated Depreciation | (52,263,316) |

Certain deferred outflows of resources are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

6,278,011

Certain deferred inflows of resources are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

(836,060)

Long-term liabilities, including accrued compensated absences are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consisted of:

| | |
|------------------------------|--------------|
| Accrued compensated absences | (2,982,039) |
| Net pension liability | (31,188,004) |

Net position of governmental activities in the Statement of Net Position

\$ 50,177,326

LINCOLN COUNTY SCHOOL DISTRICT #2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

| | GENERAL FUND | DEBT SERVICE FUND | CAPITAL CONSTRUCTION FUND |
|---|---------------------|--------------------------|----------------------------------|
| REVENUES | | | |
| Property taxes | \$ 8,975,118 | \$ - | \$ - |
| Intergovernmental-State | 31,460,361 | - | 775,730 |
| Intergovernmental-Federal | - | - | - |
| Investment earnings | 37,727 | - | - |
| Other county sources | 594,213 | - | - |
| Other local sources | 1,590,693 | - | - |
| TOTAL REVENUES | 42,658,112 | - | 775,730 |
| EXPENDITURES | | | |
| Instruction: | | | |
| Regular instruction | 18,622,634 | - | - |
| Special instruction | 6,599,294 | - | - |
| Vocational instruction | - | - | - |
| Total instruction | 25,221,928 | - | - |
| Support services: | | | |
| Pupil services | 2,955,003 | - | - |
| Staff services | 1,732,373 | - | - |
| Central administration | 427,249 | - | - |
| School administration | 2,232,881 | - | - |
| Business administration | 444,462 | - | - |
| General maintenance | 3,658,035 | - | - |
| Community support | 5,669 | - | - |
| Transportation | 4,363,611 | - | - |
| Food service | 1,930 | - | - |
| Capital construction | - | - | 921,338 |
| Total support services | 15,821,213 | - | 921,338 |
| TOTAL EXPENDITURES | 41,043,141 | - | 921,338 |
| Excess (deficiency) of revenues over expenditures | 1,614,971 | - | (145,608) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 20,878 | - | - |
| Transfers out | (39,129) | (20,878) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | (18,251) | (20,878) | - |
| SPECIAL ITEM | | | |
| Proceeds from sale of assets | 32,972 | - | - |
| Net change in fund balances | 1,629,692 | (20,878) | (145,608) |
| Fund balances - Beginning | 6,278,558 | 21,543 | 145,608 |
| FUND BALANCES - Ending | \$ 7,908,250 | \$ 665 | \$ - |

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

| MAJOR MAINTENANCE FUND | LOCAL, STATE AND FEDERAL GRANTS | TOTAL GOVERNMENTAL FUNDS |
|------------------------------|---------------------------------------|--------------------------------|
| \$ - | \$ - | \$ 8,975,118 |
| 1,805,100 | - | 34,041,191 |
| - | 1,956,475 | 1,956,475 |
| 4,782 | - | 42,509 |
| - | - | 594,213 |
| - | 1,037,952 | 2,628,645 |
| 1,809,882 | 2,994,427 | 48,238,151 |
| - | 796,004 | 19,418,638 |
| - | 1,227,054 | 7,826,348 |
| - | 65,271 | 65,271 |
| - | 2,088,329 | 27,310,257 |
| - | - | 2,955,003 |
| - | 906,098 | 2,638,471 |
| - | - | 427,249 |
| - | - | 2,232,881 |
| - | - | 444,462 |
| 1,798,959 | - | 5,456,994 |
| - | - | 5,669 |
| - | - | 4,363,611 |
| - | - | 1,930 |
| - | - | 921,338 |
| 1,798,959 | 906,098 | 19,447,608 |
| 1,798,959 | 2,994,427 | 46,757,865 |
| 10,923 | - | 1,480,286 |
| - | - | 20,878 |
| - | - | (60,007) |
| - | - | (39,129) |
| - | - | 32,972 |
| 10,923 | - | 1,474,129 |
| 643,967 | - | 7,089,676 |
| \$ 654,890 | \$ - | \$ 8,563,805 |

LINCOLN COUNTY SCHOOL DISTRICT #2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT
OF ACTIVITIES
For the Year Ended June 30, 2017

| | |
|---|--------------|
| Net change in fund balances - total governmental funds: | \$ 1,474,129 |
|---|--------------|

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

| | |
|---|-----------|
| Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays \$3,849,320 exceed depreciation \$4,238,492 in the current period. | (389,172) |
|---|-----------|

| | |
|---|--------|
| Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold. | 32,972 |
|---|--------|

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

| | |
|--|-------------|
| Deferred outflows of resources not reflected on Governmental funds | 2,336,594 |
| Deferred inflows of resources not reflected on Governmental funds | (3,693,239) |
| Net pension liability not reflected on Governmental funds | (1,480,973) |
| Compensated absences | (398,402) |

| | |
|---|-----------------------|
| Change in net position of governmental activities | <u>\$ (2,118,091)</u> |
|---|-----------------------|

LINCOLN COUNTY SCHOOL DISTRICT #2
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

| | FOOD SERVICES FUND |
|---|-------------------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 200 |
| Inventories | 39,089 |
| Total current assets | <u>39,289</u> |
| Non-current assets: | |
| Capital Assets: | |
| Equipment and Furniture | 306,244 |
| Less Accumulated depreciation | <u>(275,100)</u> |
| Total non-current assets | <u>31,144</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Expenditures unavailable for use | <u>90,006</u> |
| Total assets and deferred outflows of resources | <u>160,439</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts payable | 273 |
| Salaries payable | 6,524 |
| Due to other funds | 79,239 |
| Deferred revenue | 37,582 |
| Compensated absences | - |
| Capital lease obligation | - |
| Bonds, notes and loans payable | - |
| Total current liabilities | <u>123,618</u> |
| Non-current liabilities: | |
| Capital lease obligation | - |
| Bonds, notes and loans payable | - |
| Total non-current liabilities | <u>-</u> |
| Total liabilities | <u>123,618</u> |
| Noncurrent Liabilities: | |
| Net pension liability | <u>447,131</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Revenues unavailable for use | <u>11,986</u> |
| NET POSITION | |
| Invested in capital assets, net of related debt | 31,144 |
| Unrestricted | <u>(453,440)</u> |
| Total net position | <u><u>\$ (422,296)</u></u> |

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

LINCOLN COUNTY SCHOOL DISTRICT #2
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2017

| | FOOD SERVICES FUND |
|--|-------------------------------|
| REVENUES | |
| Charges for services-local | \$ 398,407 |
| Total operating revenues | <u>398,407</u> |
| OPERATING EXPENSES | |
| Payroll costs | 646,016 |
| Direct food costs | 460,661 |
| Supplies and materials | 50,408 |
| Depreciation | 5,875 |
| Total Operating Expenses | <u>1,162,960</u> |
| Operating income (loss) | <u>(764,553)</u> |
| NON-OPERATING REVENUES (EXPENSES) | |
| U.S. Department of Agriculture commodities | 48,119 |
| Federal operating grants and contributions | 584,273 |
| Total non-operating revenue (expenses) | <u>632,392</u> |
| Income (loss) before contributions and transfers | (132,161) |
| Transfers in | <u>39,129</u> |
| Change in net position | (93,032) |
| Total net position - beginning | <u>(329,264)</u> |
| Total net position - ending | <u><u>\$ (422,296)</u></u> |

LINCOLN COUNTY SCHOOL DISTRICT #2
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2017

| | | FOOD SERVICES FUND |
|---|----|-------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from food service charges | \$ | 398,407 |
| Cash payments for supplies and materials | | (50,408) |
| Cash payments for direct food costs | | (458,516) |
| Cash payments to employees | | (595,375) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | (705,892) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Non-operating grants received | | 666,763 |
| Transfers from other funds | | 39,129 |
| NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES | | 705,892 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchase of equipment | | - |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | - |
| BEGINNING CASH AND CASH EQUIVALENTS | | 200 |
| ENDING CASH AND CASH EQUIVALENTS | \$ | 200 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Operating income (loss) | \$ | (764,553) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | |
| Depreciation | | 5,875 |
| (Increase) decrease in inventories | | (2,145) |
| Increase (decrease) in: | | |
| Accounts payable | | (1,248) |
| Accrued expenses | | (6,524) |
| Due to other funds | | 79,239 |
| Deferred revenue | | 15,179 |
| Net pension liability and related deferred outflows/inflows | | (31,715) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ | (705,892) |

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

LINCOLN COUNTY SCHOOL DISTRICT #2
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2017

| | EMPLOYEE FLEXIBLE SPENDING FUND | STUDENT ACTIVITIES FUND |
|---------------------------|--|--|
| ASSETS | | |
| Cash and cash equivalents | \$ 66,023 | \$ 582,509 |
| TOTAL ASSETS | \$ 66,023 | \$ 582,509 |
| LIABILITIES | | |
| Due to employees | \$ 66,023 | \$ - |
| Due to student groups | - | 582,509 |
| TOTAL LIABILITIES | \$ 66,023 | \$ 582,509 |

Notes To The Financial Statements

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

1. Organization

Lincoln County School District No. 2 ("the District") is governed by an elected seven-member Board of Trustees ("the Board"), which has governance responsibilities over all activities related to public elementary and secondary school education in an area that roughly comprises the northern half of Lincoln County, Wyoming. The District receives funding from local, county, state and federal government sources and must comply with the requirements of these funding entities. The District is not included in any other governmental "reporting entity", since board members are elected by the public; have decision-making authority; have the power to designate management; have the responsibility to significantly influence operations; and have primary accountability for fiscal matters. There are no component units which are included in the District's reporting entity.

2. District-Wide and Fund Financial Statements

Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* (GASB No. 34), sets forth the financial reporting requirements and reporting model for the annual financial reports of state and local governments. The goal of GASB No. 34 is to make annual reports more comprehensive, easier to understand, and more useful to people who use governmental financial information to make decisions. The financial information required by GASB No. 34 includes:

Management's Discussion and Analysis

The management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities in a narrative format. An analysis of the District's overall financial position and results of operations is included to assist users in assessing whether the financial position has improved or deteriorated as a result of the year's activities.

District-Wide Financial Statements

The district-wide financial statements, including the Statement of Net Position – District-Wide and the Statement of Activities – District-Wide, report information on all of the non-fiduciary activities of the District. These statements distinguish between the *governmental* and *business-type* activities of the District. Governmental transactions are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or part by fees charged to external parties.

In general, the effect of interfund transactions has been eliminated from the district-wide financial statements. Exceptions to this general rule are transactions between the District's governmental and business-type activities. Elimination of these transactions would distort the direct costs and program revenues reported for the various functions concerned.

The Statement of Activities – District-Wide presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and the different business-type activities of the District. Direct expenses are those that are specifically associated with a program or function. The District does not charge indirect expenses to programs or functions. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

• **District-Wide and Fund Financial Statements, Continued**

particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Depreciation is presented in its entirety on the statement of activities. No depreciation has been allocated to any of the District's specific functions.

Fund Financial Statements

The fund financial statements provide information on the District's funds, including its fiduciary funds. Separate statements for each fund category – *Governmental*, *Proprietary* and *Fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and business-type funds, each displayed separately.

Budgetary Comparison Schedules

The budgetary comparison schedules are presented as required supplementary information to demonstrate whether resources were obtained and used in accordance with the District's legally adopted budgets (see Note 4). The District may revise the original budgets over the course of the year for various reasons. Under the reporting model prescribed by GASB No. 34, budgetary information continues to be provided, and includes comparisons of the District's original adopted budgets to the final budgets and actual results.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide, proprietary funds and fiduciary funds financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the accrual basis, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements stipulated by the provider have been met and satisfied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be measurable when the amount of the transaction can be determined and available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the fiscal year except for the foundation receivable from the State which is 300 days. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims, judgments, compensated absences, and early retirement liabilities, which are recognized to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources.

The District reports the following governmental funds:

General Fund: The General Fund is the primary operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The instructional and most of the support service programs of the District are accounted for in the General Fund. The revenue

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation, Continued

of the fund consists primarily of local property taxes and federal and state funds. This is a budgeted fund, and any unreserved or unencumbered fund balances are considered as resources available for use.

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of resources for the payment of general long-term debt principal, interest and related costs. The revenue of the fund consists primarily of local property taxes. This is a budgeted fund, and any unreserved or unencumbered fund balances are considered as resources available for use (see Note 15).

Major Maintenance Fund: The Major Maintenance Fund is used to account for funds received from the Wyoming School Facilities Commission that are specifically designated for major maintenance expenditures. This is a budgeted fund, and any unreserved or unencumbered fund balances are considered as resources available for use (see Note 15).

Capital Construction Fund: The Capital Construction Fund is used to account for the financial resources accumulated and payments made for the acquisition and improvement of sites; construction and remodel of facilities; and procurement of equipment, textbooks and supplies necessary for providing educational programs to the District's students. The revenue of the fund consists primarily of capital construction funds from the Wyoming School Facilities Commission. This is a budgeted fund, and any unreserved or unencumbered fund balances are considered as resources available for use.

Local, State and Federal Grants Funds: The Local, State and Federal Grants Funds are used to account for funds received from federal and state grants that have restrictions on their use. These are budgeted funds, and any unreserved or unencumbered fund balances are considered as resources available for use.

The District reports the following proprietary fund:

Food Services Fund: The Food Services Fund is used to account for the District's school breakfast and lunch programs, which provides meals to students and other individuals. Operating revenues are comprised of user charges. Non-operating revenues are comprised of grant revenues, interest income, and transfers from other funds. This is a budgeted fund, and any fund balances are considered as resources available for use.

The District reports the following fiduciary fund:

Employee Flexible Spending Fund: The Employee Flexible Spending Fund is used to account for funds deducted from participating employees who have elected to set aside funds on a pre-tax basis for payment of medical or childcare expenses. This fund does not include revenues and expenditures for general operations of the District.

Student Activity Funds: The Student Activity Funds are agency funds used to account for activities of student groups and other types of activities requiring clearing accounts. These funds have no net position; assets are equal to liabilities, and do not include revenues and expenditures for general operations of the District.

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

4. Budgetary Information

Under Wyoming law, the District's approved budgets establish maximum legal authorization for expenditures during the fiscal year. The budgets are prepared on the modified accrual basis. Unused appropriations lapse at the end of the year, unless the Board extends existing encumbrances beyond year-end.

On or before May 15 of each year, the District's administration submits to the Board a preliminary operating budget for each of the budgeted funds for the fiscal year commencing July 1. The operating budgets include proposed expenditures detailed at the functional level and the means of financing them.

On the third Wednesday of July, the Board conducts its annual budget hearing and budgets are legally adopted through the passage of an appropriation by the Board.

Actual expenditures and operating transfers out may not legally exceed budget appropriations at the functional level. The legal level of budgetary control is the functional level at which the Board must approve any over-expenditures of appropriations or transfers of appropriated amounts. The functional levels are Instruction, Instructional Support, General Support, General Support, Community Support and Other Outlays.

The School Board may amend the budget after holding a budget hearing at any time during the year. The administration may transfer between budgetary line items within a function without Board approval.

5. Summary of Significant Accounting Policies

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles and standards. The more significant accounting policies of the District are described as follows:

Cash and Cash Equivalents

The District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Receivables

Receivables shown on the governmental fund financial statements are those for which payment was received within 60 days except for the foundation receivable from the State which is 300 days after the financial statement date. All receivables, regardless of when they are collected, are recognized in the district-wide financial statements. Such receivables are shown net of any allowances for uncollectible amounts.

Inventories

Inventories, which consist primarily of food supplies, are reported at the lower of cost (first-in, first-out) or net realizable value, or if donated, at fair value when received. Inventories of governmental funds are

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

5. Summary of Significant Accounting Policies, Continued

immaterial and are recorded as expenditures when purchased. Donated food commodities are reported in the Food Services Fund as revenue when received.

Capital Assets

Capital assets are reported in the district-wide financial statements and the proprietary funds, and are reported as expenditures in the governmental fund financial statements. Purchased or constructed capital assets are reported at historical cost, less accumulated depreciation. If historical cost is unknown, estimated historical cost is used. Donated capital assets are recorded at estimated fair market value at the date of donation, less accumulated depreciation. The District uses a capitalization threshold of \$2,500. When capital assets are sold or otherwise disposed of, the cost and associated accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in the Statement of Activities – District-Wide or the Statement of Revenues, Expenses and Changes in Fund Net Position, in the case of proprietary funds.

All reported capital assets except land and construction in progress are depreciated. Depreciation is calculated on capital assets using the straight-line method over the estimated useful lives of those assets, as follows:

| | <u>Years</u> | <u>Business Type</u> |
|-------------------------------------|--------------|----------------------|
| Buildings and building improvements | 20 to 30 | -- |
| Transportation equipment | 5 to 12 | -- |
| General equipment | 5 to 20 | 5 to 20 |

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements. On the District-wide financial statements and the proprietary fund financial, liabilities that become due and payable within one year of the financial statement date are included in current liabilities, while liabilities that become due and payable after that time are shown as noncurrent liabilities.

In general, governmental funds payables and accrued liabilities that are paid in a timely manner from current financial resources are reported as obligations of the funds. Liabilities shown on the fund financial statements are those that have become due and payable at the end of the fiscal year, which are expected to be paid during the upcoming fiscal year, and are reported as expenditures and fund liabilities of the governmental fund that will pay it.

Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, *Account for Compensated Absences* (GASB No. 16). Compensated absences consist of accumulated sick, personal and vacation leave balances that are unpaid by the financial statement date.

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

5. Summary of Significant Accounting Policies, Continued

All eligible employees of the District receive personal leave at the beginning of the year. In accordance with GASB No. 16, no liability is recorded for non-vesting accumulated rights to receive sick pay. Under the terms of association agreements, twelve-month or full-year employees earn vacation in amounts that vary based on tenure and classification. The District records a liability for accumulated unused vacation for all eligible employees.

Accumulated personal and vacation leave that has become due and payable at the end of the fiscal year, which is expected to be paid during the upcoming fiscal year, is reported as an expenditure and fund liability of the governmental fund that will pay it. Accumulated personal and vacation leave that is expected to be utilized by employees during the upcoming fiscal year is reported as a current obligation in the district-wide financial statements. Accumulated personal and vacation leave that is not expected to be utilized by employees during the upcoming fiscal year is reported as a noncurrent obligation in the district-wide financial statements. Accumulated personal and vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

When an employee terminates employment with the District, unused personal and sick leave hours are paid at the rate of one-half of the employee's current hourly rate for certified staff and at step one of the employees' classification pay scale for support staff as of June 30, 2017.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

The Lincoln County School District #2 Board of Trustees recognizes that the district uses and maintains diverse funds with assorted requirements on balances of cash, investments and other asset and liability accounts. Additionally, Governmental Accounting Standards Board (GASB) 54 has increased the reporting requirement on fund balances for financial statement purposes. Since fund balance reporting has a direct influence on state funding, it is the intention of the Board of Trustees to clarify how fund balances will be reported. Lincoln County School District #2 will use the fund balances definitions in GASB 54 for financial reporting for all governmental fund types. The classifications are intended to depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund could include any combination of these classifications.

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2016

5. Summary of Significant Accounting Policies, Continued

Non-spendable Fund Balances: These fund balances are the net balance of assets and liabilities that are held legally, contractually or in a “not in spendable form.” This includes all legally or contractually restricted balances as well as prepaid inventory and other items considered “not in spendable form”.

Restricted Fund Balances: These fund balances are the net balance of assets and liabilities that have provisions that are externally imposed. These are grants or other funds that are restricted by the debt covenants, grantor, contributor, or by laws or regulations of external governments. In general, these include a legally enforceable requirement that the resources be used only for the specific purposes stipulated in the grant, debt covenant or by law. The Board and state statute have restricted \$1.5 million for the purpose, but not limited to construction, maintenance and renovations.

Committed Fund Balance: Committed Fund Balances are those imposed by a formal action taken by the Board of Trustees. Once the Board of Trustees has taken formal action, the assets cannot be used for other purposes unless the Board of Trustees removes or changes the specified use by taking the same action it employed previously to commit those balances.

Assigned Fund Balance: Assigned Fund Balances are the net amounts of assets and liabilities constrained by the intent of the Board of Trustees. The intent will not be specified by formal action of the Board of Trustees but will be part of items such as the adopted budget or in a statement by the Board of Trustees or by the Director of Business and Finance.

Unassigned Fund Balance: Typically Unassigned Fund Balances will be limited to the general fund, and by definition, they are the residual balance for fund balance.

Property Tax Calendar

The Lincoln County Treasurer is responsible for levying and collecting property taxes on behalf of the District. Property taxes attach as an enforceable lien on property on July 1 of each year. Property taxes are levied on or about July 1, and are due in two installments. The first installment becomes due on September 1, and is delinquent on November 10; the second installment becomes due on March 1, and is delinquent on May 10. Taxes receivable represent taxes levied but uncollected by the County Treasurer at June 30, 2017.

Grant Revenue

The District receives financial assistance from governmental agencies in the form of grants, which are accounted for in special revenue funds. Revenue is deemed earned and thus recognized when applicable program expenditures are recorded. Funds received but not earned at June 30, 2017 are recorded as deferred revenue.

Operating and Non-Operating Revenues

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

5. Summary of Significant Accounting Policies, Continued

Use of Restricted Resources

When expenditures qualify to be paid out of both restricted and unrestricted resources, it is the policy of the District to generally use restricted resources first.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and affect the amounts reported in the financial statements.

Subsequent Events

The District has evaluated subsequent events through November 9, 2017 which is the date that these financial statements are issued. No material subsequent events have occurred since June 30, 2017 that requires recognition or disclosure in these financial statements.

6. Cash and Cash Equivalents

Authorized deposits are controlled by state statute and include, but are not limited to, deposits in banks, money market account and treasury notes. The District's cash and cash equivalents consist of checking and money market accounts at local banks

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Wyoming statute 9-4-820 requires the District to collateralize bank deposits that exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC). In addition, for collateral held by a custodian other than the Federal Reserve, an approved Joint Custody Receipt form must be properly executed to perfect the District's interest in collateral pledged by depository financial institutions. The District's business manager monitors cash account balances to see that sufficient collateral is pledged to the District. As of June 30, 2017 the District's deposits were insured by the FDIC up to \$250,000 at each bank. In addition, through the Transaction Account Guarantee Program (TAFP), all noninterest-bearing checking accounts and low-interest (.25% or less) negotiable order of withdrawal (NOW) accounts were fully covered by FDIC. Institutions that were participating in the program were given the option to opt out of the extension. Only one of the District's financial institutions chose to opt out of the extension.

The carrying amount of cash and cash equivalents on the District's books at June 30, 2017 was \$8,190,590 (including deposits held for fiduciary funds) and bank balances totaled \$10,191,452. The differences between the carrying amount of cash and cash equivalents on the District's books and the bank balances consist of outstanding checks and deposits not processed by the bank as of June 30, 2017.

The carrying amount of cash and cash equivalents on the District's books at June 30, 2017 consists of and appears in the financial statements as summarized below:

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

6. Cash and Cash Equivalents, Continued

| | |
|--|---------------------|
| Cash and cash equivalents, State of Net Position - District-Wide | \$ 7,542,474 |
| Cash in custody of County Treasurer, State of Net Position - District-Wide | 665 |
| Cash and cash equivalents, State of Net position - Fiduciary Funds | <u>648,532</u> |
| Carrying amount of bank deposits | <u>\$ 8,191,671</u> |

A summary of the total insured and collateralized bank balances at June 30, 2017 is as follows:

| | |
|---|---------------------|
| Insured by the FDIC | \$ 368,165 |
| Collateralized with security held by pledging institution's trust department or correspondent bank under a joint custody receipt in the name of the District and the financial institution. | <u>8,158,618</u> |
| Total | <u>\$ 8,526,783</u> |

7. Investments

Wyoming statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities and repurchase agreements. District policy restricts investments to certificates of deposit with local banks and the Wyoming State Treasurer's (WYO-STAR) Local Government Investment Pool, unless specific board action authorizes an alternative investment. The District has no policies in place related to exposure to credit risk, custodial credit risk, concentration of credit risk, interest rate credit risk, or foreign currency credit risk other than the above-described investment policy.

As of June 30, 2017, the District had the following investments (including investments of fiduciary funds).

| <u>Investment</u> | <u>Maturities</u> | <u>Fair Value</u> |
|---|-------------------|---------------------|
| WYO-STAR Local Government Investment Pool | 161 days average | \$ 152,080 |
| Wyoming Governmental Investment Fund | 49 days average | <u>1,512,589</u> |
| Total Investments | | <u>\$ 1,664,669</u> |

Interest Rate Risk

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

Credit Risk

State law limits investments to obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements. The District has no investment policy that would further limit its investment choices. As of June 30, 2017 the District's investments in the WYO-STAR Local Government Investment Pool (WYO-STAR) had a credit rating of AAA by Standard and Poor's Rating Services.

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

7. Investments, Continued

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. More than five percent of the District's investments are in the WYO-STAR Local Government Investment Pool. These investments represent 100% of the District's total investments.

The WYO-STAR Local Government Investment Pool is managed by the Wyoming State Treasurer

8. Receivables from Other Governments

All amounts recognized as receivables on the governmental funds financial statements were collected within 60 days except for the foundation receivable from the State which is 300 days after year-end. All receivables, regardless of when they are collected, are recognized on the district-wide financial statements.

Accounts Receivable

Accounts receivable balances consist primarily of amounts due from the Wyoming School Facilities Commission for reimbursement of expenditures related to capital construction projects and from Idaho School districts for the payment of out-of-state student tuition. The total balance due as of June 30, 2017 is \$96,070.

Property Taxes Receivable

Property taxes receivable consist of property taxes received in the first 60 days after June 30, 2017, that relate to taxes levied prior to and during the 2017 fiscal year. The balance reported for property taxes receivable as of June 30, 2017 is \$152,729. Some of the District's taxes were paid under protest to the County Treasurer during the 2010 year. This means that the property owners are disputing the assessed valuation of their property, and therefore the amount of their property tax bill. When taxes are paid under protest, the Treasurer must hold that money in a protest account until the protest is resolved with the State Board of Equalization. Because the taxes were paid under protest, and the ultimate amount the District will receive is still in question, no receivable has been recognized on the financial statements for those taxes.

Grants Receivable

Grants receivable balances consist of revenues earned by the District from various state or federal grants that had not been received by the District as of June 30, 2017. The balance reported for grants receivable as of June 30, 2017 is \$1,343,048.

9. Capital Assets

GASB Statement No. 34 requires the inclusion of capital asset information in the Statement of Net Position – District-Wide and depreciation expense in the Statement of Activities – District-Wide. Capital asset activity for the year ended June 30, 2017 is as follows:

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

9. Capital Assets, Continued

| | Balance 6/30/2016 | Additions | Disposals | Balance 6/30/2017 |
|-------------------------------------|----------------------|-------------------|----------------------|----------------------|
| <u>Governmental Activities</u> | | | | |
| Buildings and Building Improvements | \$ 106,892,564 | \$ 4,300,033 | \$ (1,241,928) | \$ 109,950,669 |
| Transportation equipment | 7,249,347 | 664,426 | - | 7,913,773 |
| General Equipment | 2,550,447 | 162,924 | (36,135) | 2,677,236 |
| Capital assets in service | 116,692,358 | 5,127,383 | (1,278,063) | 120,541,678 |
| Accumulated depreciation | (49,282,444) | (4,238,492) | 1,257,620 | (52,263,316) |
| | 67,409,914 | 888,891 | (20,443) | 68,278,362 |
| Land | 2,063,251 | - | - | 2,063,251 |
| Construction in Progress | 2,566,808 | - | (2,566,808) | - |
| | <u>\$ 72,039,973</u> | <u>\$ 888,891</u> | <u>\$(2,587,251)</u> | <u>70,341,613</u> |
| <u>Business-type Activities</u> | | | | |
| Equipment | \$ 344,955 | \$ 14,605 | \$ (53,316) | \$ 306,244 |
| Accumulated depreciation | (313,204) | (7,327) | 45,431 | (275,100) |
| | <u>\$ 31,751</u> | <u>\$ (7,278)</u> | <u>\$ (7,885)</u> | <u>\$ 31,144</u> |

Depreciation expense for governmental funds has not been allocated to any of the District's individual functions. Rather, the District has included all depreciation related to governmental funds as a single line item on the Statement of Activities – District-Wide.

Depreciation expense for business-type activities is shown on the proprietary fund financial statements.

10. Interfund Receivables and Payables

Interfund receivables and payables arise primarily from one fund holding cash on behalf of another fund in order to limit the number of bank accounts held by the District. Interfund receivables and payables may also arise from one fund making payments on behalf of another fund to cover expenditures until grant revenues are received. When grant money is received, the paying fund is reimbursed for the payments made on behalf of the receiving fund.

Interfund receivables and payables at June 30, 2017 are summarized as follows:

| <u>Due To</u> | <u>Due From</u> | <u>Amount</u> |
|---------------|----------------------------------|---------------|
| General Fund | Local, State, and Federal Grants | \$ 1,203,533 |
| General Fund | Capital Construction | 65,031 |
| General Fund | Food Services | 79,239 |

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

11. Interfund Transfers

The following are interfund transfers for the year ended June 30, 2017:

| <u>Transfer From</u> | <u>Transfer To</u> | <u>Reason</u> | <u>Amount</u> |
|----------------------|--------------------|-------------------------------|---------------|
| General Fund | Food Service Fund | Assist with food costs | \$ 39,129 |
| General Fund | Cap Con. Fund | Assist with deficit reduction | 20,878 |

12. Short-Term Borrowings

The District had no short-term borrowings at June 30, 2017, nor were there any short-term borrowings or repayments during the year then ended.

13. Long-Term Obligations

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

| | <u>Long-Term Obligations 6/30/2016</u> | <u>Long-Term Obligations Incurred</u> | <u>Long-Term Obligations Paid</u> | <u>Long-Term Obligations 6/30/2017</u> | <u>Due Within One Year</u> |
|---------------------------------|--|---|---|--|--------------------------------|
| Accrued compensated absences | <u>\$ 2,583,637</u> | <u>\$ 2,437,590</u> | <u>\$(2,039,188)</u> | <u>\$ 2,982,039</u> | <u>\$ 894,612</u> |

14. Wyoming Retirement System Defined Contribution Plan

Plan Description

All full-time and permanent part-time employees of the District participate in the State of Wyoming Retirement System ("the Plan"), a multi-employer, cost-sharing public employee retirement plan. The Plan is a defined benefit plan covering substantially all employees of the State, electing local municipalities, and the Public School System of Wyoming. The cost to administer the Plan is financed through the contributions and investment earnings of the Plan.

The Plan is governed by a Board of Trustees comprised of the State Treasurer, five trustees who are members of the Plan and five "at-large" trustees who are not members of the Plan. With the exception of the State Treasurer, Board members are appointed by the Governor and confirmed by the Wyoming Senate. The Board employs an executive director to oversee day-to-day operations which includes a staff of approximately 40 employees.

Pension Benefits

The Plan allows for normal retirement after four years of service and attainment of age 60. Retirees can select one of five options for receiving benefits. Early retirement is allowed, provided the employee has

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

14. Wyoming Retirement System Defined Contribution Plan Continued

completed four years of service and attained age 50, but results in a reduction of benefits based on the length of time remaining to normal retirement age. Employees terminating prior to normal retirement can elect to withdraw all employee contributions plus accumulated earnings through the date of their termination.

The Plan offers two tiers of benefits. Tier 1 participants are those that have made contributions to the Plan prior to September 1, 2012. Tier 1 participants vest after 48 months of service, with eligibility for full retirement benefits upon attaining age 60 and meeting the “rule of 85,” which requires the participants age and years of service to be equal or exceed 85. Tier 1 benefits are calculated with a 2.125% multiplier rate for the first 15 years of service with the remaining service years calculated with a 2.25% rate, using the highest average salary for 36 continuous months. Tier 2 participants are those whose participation in the Plan and contributions to the Plan began on or after September 1, 2012. Tier 2 participants vest after 48 months of service, with eligibility for full retirement benefits upon attaining age 65 and meeting the “rule of 85,” which requires the participants age and years of service to equal or exceed 85. Tier 2 benefits are calculated with a 2.00% multiplier rate for all years of service using the highest average salary for 60 continuous months.

Member and Employer Contributions

The Plan statutorily requires 16.62% of the participant’s salary to be contributed to the Plan; the District is required to contribute a minimum of 8.37% of the employee’s salary. The District can, however, elect to contribute more than the required amount. The District has elected to contribute 16.62% of the employee’s salary.

Salaries and wages paid to employees covered by the Plan for the years ended June 30, 2017, 2016, and 2015 were \$24,444,895, \$24,432,971 and \$24,016,593 and the District’s contributions totaled \$3,915,312, \$3,913,402, and \$3,670,309 respectively

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

At June 30, 2017, the District reported a liability of \$31,635,135 for its proportionate share of the net pension liability, of which \$31,188,004 is reported in governmental activities and \$447,131 is reported in business-type activities. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. The District’s proportion of the net pension liability was based on the District’s share of contributions to the Plan relative to the total contributions of all participating Plan members, actuarially determined. At December 31, 2016, the District’s proportionate allocation was 1.3085887%

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

14. Wyoming Retirement System Defined Contribution Plan Continued

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions Continued

For the year ended June 30, 2017, The District recognized pension expense as follows:

| | |
|--------------------------|---------------------|
| Governmental activities | \$3,200,194 |
| Business-type activities | <u>45,439</u> |
| Total pension expense | <u>\$ 3,245,633</u> |

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| <u>Governmental Activities:</u> | | |
| Contributions made subsequent to measurement date | \$ 508,683 | \$ - |
| Net difference between projected and actual earnings on investments | 5,769,328 | |
| Change in proportionate share of net pension liability | | 836,060 |
| <u>Business-type activities:</u> | | |
| Contributions made subsequent to measurement date | 7,293 | |
| Net difference between projected and actual earnings on investments | 82,713 | |
| Change in proportionate share of net pension liability | | <u>11,986</u> |
| Total | <u>\$ 6,368,017</u> | <u>\$ 848,046</u> |

The amount reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date, in the amount of \$1,957,656, will be recognized as a reduction of net pension liability in the year ending June 30, 2017.

The average of the expected remaining service lives of all employees that are provided with pensions through the Plan (active and inactive employees) was determined at January 1, 2016, the beginning of the measurement period ended December 31, 2016 is 3.9136 years.

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

14. Wyoming Retirement System Defined Contribution Plan Continued

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions Continued

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 Ending June 30 | Total |
|------------------------|---------------------|
| 2017 | \$ 1,707,615 |
| 2018 | 1,726,738 |
| 2019 | 1,476,638 |
| 2020 | 93,004 |
| 2021 | - |
| | <u>\$ 5,003,995</u> |

Actuarial Assumptions

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period of the Plan permitted under Wyoming Code is 30 years.

The total pension liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all period included in the measurement:

| | |
|---------------------------|-----------------------------------|
| Inflation | 3.25% |
| Salary increases | 4.25 - 6.00%, including inflation |
| Payroll growth rate | 4.25% |
| Investment rate of return | 7.75%, net of investment expenses |

Mortality rates were based on the RP – 2000 combined mortality table for healthy males or females as appropriate with the following pre-retirement mortality offsets:

- Males: Set back 5 years with a 104% multiplier
- Females: Set back 4 years with a 90% multiplier

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

14. Wyoming Retirement System Defined Contribution Plan Continued

Actuarial Assumptions Continued

The assumed rate of investment return was adopted by the Plan's trustees after considering input from the Plan's investment consultant and actuary. Additional information about the assumed rate of investment return was included in the Plan's actuarial valuation report as of January 1, 2017. In addition, a five-year experience study was completed as of December 31, 2011 that provided a detailed analysis regarding recommendations on the long-term rate for inflation and the real rate of return. The assumed rate of investment return of 7.75% (real return net of inflation of 4.50%) falls within a reasonable range of the long-term rate of return.

The long-term expected rate of return on pension plan investments was determined using the building-block approach and a forward-looking model 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.

The target allocation best estimates of arithmetic real rates of return for each major asset as of January 1, 2017 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-------------------------|----------------------|---|
| Cash | 2.00% | 0.20% |
| Fixed Income | 15.00% | 2.00% |
| Equity | 50.00% | 7.70% |
| Marketable Alternatives | 15.50% | 3.70% |
| Private Markets | 17.50% | 7.10% |
| Total | 100.00% | |

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. This rate was based on the expected rate of return on pension plan investments of 7.75%. The projection of cash flows used to determine the rate assumed that plan member contributions and employer contributions will be made at the current contribution rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

14. Wyoming Retirement System Defined Contribution Plan Continued

Sensitivity of the District's Proportionate Share of the Net Pension Liability

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

Sensitivity of the District's Proportionate Share of the Net Pension Liability Continued

| | 1% Decrease (6.75%) | Current Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------|------------------------|
| District's proportionate share of net pension liability | \$ 45,438,617 | \$ 31,635,135 | \$ 20,041,524 |

Pension Plan Fiduciary Net Position

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

A copy of the Plan's financial statements may be obtained by contacting the Wyoming's Retirement System at 6101 Yellowstone Road, Suite 500, Cheyenne, WY 82002 or on the Plan website at <http://retirement.state.wy.us>.

Payables to the Pension Plan

At June 30, 2017, the District reported \$0 payable to the defined benefit pension plan for legally required employer contributions or employee contributions which had been withheld from employee wages but not yet remitted to the Plan.

15. Net Position

Restrictions of net position are established to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Specific restrictions on net position are summarized below:

Debt Service: As of June 30, 2009, the District's general obligation bonds were paid in full. During 2009, \$712, 667 was transferred to the Capital Construction Fund in accordance with Wyoming State statutes. The remaining fund balance is reserved for capital outlay expenditures, in accordance with Wyoming State statutes.

Major Maintenance: The fund balance is reserved to segregate funds for capital outlay expenditures which meet the Wyoming School Facilities Commission's definition of major maintenance.

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

15. Net Position, Continued

Capital Construction: The fund balance is reserved for capital outlay expenditures, in accordance with Wyoming State statutes.

16. Risk Management

Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settlements did not exceed coverage during the year ended June 30, 2017.

Litigation

The District is occasionally named as a defendant in lawsuits arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a materially adverse effect on the accompanying district-wide financial statements and accordingly, no provision for loss has been recorded.

17. Contingent Liabilities

School Foundation Program

The District's funding for the General Fund is determined by the School Foundation Funding Model, which was passed into law by the State of Wyoming ("the State") Legislature. Funding is determined based on a variety of core elements of data submitted to the State by the District. Beginning in fiscal year 2003, the State Department of Audit began auditing the information submitted by Districts to the State at least once every three years. If the Department of Audit finds errors in the data submitted by the District, a retroactive funding adjustment is made. If the District is over-funded, the District is required to refund the overpayment to the State.

On August 18, 2016 the State of Wyoming, Department of Audit completed its audit of the District covering the fiscal year ended June 30, 2013. Based upon the results of the audit, the State determined that the District had been under-funded by \$1,326,228. The State did refund the underpayment to the District in fiscal year ending June 30, 2016.

Grant Programs

The District receives significant financial assistance from federal and state governmental agencies in the form of grants, which are governed by various rules and regulations of the grantor agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the District's independent auditors and other governmental auditors. Therefore, to the extent that the District has not complied with the terms and conditions governing the grants, refunds of any money received may be required, and the collectability of any related receivables at June 30, 2017, may be impaired. Based on prior experience, the District administration believes such amounts, if any, would be immaterial.

Lincoln County School District No. 2
Notes to Financial Statements
June 30, 2017

18. Economic Dependency

The District receives a large portion of its funding from the State. Any shortfall in property taxes collected by the District is made up by the State. Therefore, the District is economically dependent on the State for its continued operations.

19. Deficit Fund Balances

The Food Services Fund had a deficit fund balance at June 30, 2017 of \$422,296.

20. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position and Balance Sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. See Note 14 for the detail of these deferred outflows of resources.

In addition to liabilities, the Statement of Net Position and Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position and fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 14 for the detail of these deferred inflows of resources.

21. Other Postemployment Benefits

Governmental Accounting Standards Board (GASB) Statement No. 45 (GASB No. 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* established standards for measurement, recognition and reporting of non-pension postemployment benefits, including the medical, dental and vision insurance benefits offered to retirees of the District. Historically, the District did not recognize any expense associated with this plan because the District did not explicitly contribute towards the cost of these benefits for retirees. However, the ability for retirees to obtain coverage at rates similar to active employees constitutes a significant economic benefit to the retirees. GASB No. 45 requires that the District recognize the implicit cost of its retiree postemployment benefit plan during the period of the employee's active employment while the benefits are being earned. The Unfunded Actuarial Accrued Liability (UAAL) is disclosed in order to accurately account for the future cost of postemployment benefits and the financial impact on the District. The District had a negative accrued liability of \$224,859 (an asset), at June 30, 2017.

Required Supplementary Information

LINCOLN COUNTY SCHOOL DISTRICT #2
BUDGET AND ACTUAL (WITH VARIANCES) - GENERAL FUND
For the year ended June 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE |
|--|-------------------------|-------------------|---------------------|------------------------------------|
| | ORIGINAL | FINAL | AMOUNTS | FAVORABLE (UNFAVORABLE) |
| REVENUES | | | | |
| Property taxes | \$ 9,248,279 | \$ 9,138,279 | \$ 8,975,118 | \$ (163,161) |
| Intergovernmental-State | 30,894,201 | 31,108,226 | 31,460,361 | 352,135 |
| Intergovernmental-Federal | - | - | - | - |
| Investment earnings | 19,562 | 23,562 | 37,727 | 14,165 |
| Other county sources | 647,500 | 647,500 | 594,213 | (53,287) |
| Other local sources | 1,361,438 | 1,451,438 | 1,590,693 | 139,255 |
| TOTAL REVENUES | 42,170,980 | 42,369,005 | 42,658,112 | 289,107 |
| EXPENDITURES | | | | |
| Regular instruction | 18,662,961 | 18,432,043 | 18,622,634 | (190,591) |
| Special instruction | 5,874,692 | 6,500,662 | 6,599,294 | (98,632) |
| Vocational instruction | - | - | - | - |
| Pupil services | 3,378,309 | 3,229,282 | 2,955,003 | 274,279 |
| Staff services | 2,064,597 | 2,064,597 | 1,732,373 | 332,224 |
| Central administration | 724,981 | 724,981 | 427,249 | 297,732 |
| School administration | 2,313,802 | 2,313,802 | 2,232,881 | 80,921 |
| Business administration | 490,263 | 490,263 | 444,462 | 45,801 |
| General maintenance | 4,233,462 | 4,183,462 | 3,658,035 | 525,427 |
| Community support | 5,000 | 7,000 | 5,669 | 1,331 |
| Transportation | 4,299,913 | 4,299,913 | 4,363,611 | (63,698) |
| Food service | - | - | 1,930 | (1,930) |
| Capital Construction | - | - | - | - |
| TOTAL EXPENDITURES | 42,047,980 | 42,246,005 | 41,043,141 | 1,202,864 |
| Excess (deficiency) of revenues over expenditures | 123,000 | 123,000 | 1,614,971 | 1,491,971 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | 20,878 | (20,878) |
| Transfers out | (125,000) | (125,000) | (39,129) | 85,871 |
| TOTAL OTHER FINANCING SOURCES (USES) | (125,000) | (125,000) | (18,251) | 64,993 |
| SPECIAL ITEM | | | | |
| Proceeds from sale of assets | 2,000 | 2,000 | 32,972 | 30,972 |
| Net change in fund balances | \$ - | \$ - | 1,629,692 | \$ 1,629,692 |
| Fund balances - Beginning | | | 6,278,558 | |
| FUND BALANCES - Ending | | | \$ 7,908,250 | |

LINCOLN COUNTY SCHOOL DISTRICT #2
BUDGET AND ACTUAL (WITH VARIANCES) - DEBT SERVICE
For the year ended June 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE |
|--|-------------------------|-----------------|-----------------|------------------------------------|
| | ORIGINAL | FINAL | AMOUNTS | FAVORABLE (UNFAVORABLE) |
| REVENUES | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental-State | - | - | - | - |
| Intergovernmental-Federal | - | - | - | - |
| Investment earnings | 20,878 | 20,878 | - | (20,878) |
| Other county sources | - | - | - | - |
| Other local sources | - | - | - | - |
| TOTAL REVENUES | 20,878 | 20,878 | - | (20,878) |
| EXPENDITURES | | | | |
| Regular instruction | - | - | - | - |
| Special instruction | - | - | - | - |
| Vocational instruction | - | - | - | - |
| Pupil services | - | - | - | - |
| Staff services | - | - | - | - |
| Central administration | - | - | - | - |
| School administration | - | - | - | - |
| Business administration | - | - | - | - |
| General maintenance | - | - | - | - |
| Community support | - | - | - | - |
| Transportation | - | - | - | - |
| Food service | - | - | - | - |
| Capital Construction | - | - | - | - |
| TOTAL EXPENDITURES | - | - | - | - |
| Excess (deficiency) of revenues over expenditures | 20,878 | 20,878 | - | (20,878) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | - | - |
| Transfers out | (21,000) | (21,000) | (20,878) | 122 |
| TOTAL OTHER FINANCING SOURCES (USES) | (21,000) | (21,000) | (20,878) | 122 |
| SPECIAL ITEM | | | | |
| Proceeds from sale of assets | - | - | - | - |
| Net change in fund balances | <u>\$ (122)</u> | <u>\$ (122)</u> | (20,878) | <u>\$ (20,756)</u> |
| Fund balances - Beginning | | | <u>21,543</u> | |
| FUND BALANCES - Ending | | | <u>\$ 665</u> | |

LINCOLN COUNTY SCHOOL DISTRICT #2
BUDGET AND ACTUAL (WITH VARIANCES) - MAJOR MAINTENANCE
For the year ended June 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE |
|--|-------------------------|------------------|-------------------|------------------------------------|
| | ORIGINAL | FINAL | AMOUNTS | FAVORABLE (UNFAVORABLE) |
| REVENUES | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental-State | 1,693,000 | 1,693,000 | 1,805,100 | 112,100 |
| Intergovernmental-Federal | - | - | - | - |
| Investment earnings | 6,500 | 6,500 | 4,782 | (1,718) |
| Other county sources | - | - | - | - |
| Other local sources | - | - | - | - |
| TOTAL REVENUES | 1,699,500 | 1,699,500 | 1,809,882 | 110,382 |
| EXPENDITURES | | | | |
| Regular instruction | - | - | - | - |
| Special instruction | - | - | - | - |
| Vocational instruction | - | - | - | - |
| Pupil services | - | - | - | - |
| Staff services | - | - | - | - |
| Central administration | - | - | - | - |
| School administration | - | - | - | - |
| Business administration | - | - | - | - |
| General maintenance | 1,699,500 | 1,960,000 | 1,798,959 | 161,041 |
| Community support | - | - | - | - |
| Transportation | - | - | - | - |
| Food service | - | - | - | - |
| Capital Construction | - | - | - | - |
| TOTAL EXPENDITURES | 1,699,500 | 1,960,000 | 1,798,959 | 161,041 |
| Excess (deficiency) of revenues over expenditures | - | (260,500) | 10,923 | 271,423 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | - | - | - | - |
| SPECIAL ITEM | | | | |
| Proceeds from sale of assets | - | - | - | - |
| Net change in fund balances | \$ - | \$ (260,500) | 10,923 | \$ 271,423 |
| Fund balances - Beginning | | | 643,967 | |
| FUND BALANCES - Ending | | | \$ 654,890 | |

LINCOLN COUNTY SCHOOL DISTRICT #2
BUDGET AND ACTUAL (WITH VARIANCES) - CAPITAL CONSTRUCTION
For the year ended June 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE |
|--|-------------------------|----------------|----------------|------------------------------------|
| | ORIGINAL | FINAL | AMOUNTS | FAVORABLE (UNFAVORABLE) |
| REVENUES | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental-State | 754,000 | 890,000 | 775,730 | (114,270) |
| Intergovernmental-Federal | - | - | - | - |
| Investment earnings | - | - | - | - |
| Other county sources | - | - | - | - |
| Other local sources | - | - | - | - |
| TOTAL REVENUES | 754,000 | 890,000 | 775,730 | (114,270) |
| EXPENDITURES | | | | |
| Regular instruction | - | - | - | - |
| Special instruction | - | - | - | - |
| Vocational instruction | - | - | - | - |
| Pupil services | - | - | - | - |
| Staff services | - | - | - | - |
| Central administration | - | - | - | - |
| School administration | - | - | - | - |
| Business administration | - | - | - | - |
| General maintenance | - | - | - | - |
| Community support | - | - | - | - |
| Transportation | - | - | - | - |
| Food service | - | - | - | - |
| Capital Construction | 754,000 | 890,000 | 921,338 | (31,338) |
| TOTAL EXPENDITURES | 754,000 | 890,000 | 921,338 | (31,338) |
| Excess (deficiency) of revenues over expenditures | - | - | (145,608) | (145,608) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | - | - | - | - |
| SPECIAL ITEM | | | | |
| Proceeds from sale of assets | - | - | - | - |
| Net change in fund balances | \$ - | \$ - | (145,608) | \$ (145,608) |
| Fund balances - Beginning | | | 145,608 | |
| FUND BALANCES - Ending | | | \$ - | |

LINCOLN COUNTY SCHOOL DISTRICT #2
BUDGET AND ACTUAL (WITH VARIANCES) - LOCAL, STATE AND FEDERAL GRANTS
For the year ended June 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE |
|--|-------------------------|------------------|------------------|------------------------------------|
| | ORIGINAL | FINAL | AMOUNTS | FAVORABLE (UNFAVORABLE) |
| REVENUES | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental-State | - | - | - | - |
| Intergovernmental-Federal | 1,793,296 | 1,793,296 | 1,956,475 | 163,179 |
| Investment earnings | - | - | - | - |
| Other county sources | - | - | - | - |
| Other local sources | 936,936 | 936,936 | 1,037,952 | 101,016 |
| TOTAL REVENUES | 2,730,232 | 2,730,232 | 2,994,427 | 264,195 |
| EXPENDITURES | | | | |
| Regular instruction | 800,776 | 800,776 | 796,004 | 4,772 |
| Special instruction | 891,878 | 891,878 | 1,227,054 | (335,176) |
| Vocational instruction | 68,509 | 68,509 | 65,271 | 3,238 |
| Pupil services | - | - | - | - |
| Staff services | 969,069 | 969,069 | 906,098 | 62,971 |
| Central administration | - | - | - | - |
| School administration | - | - | - | - |
| Business administration | - | - | - | - |
| General maintenance | - | - | - | - |
| Community support | - | - | - | - |
| Transportation | - | - | - | - |
| Food service | - | - | - | - |
| Capital Construction | - | - | - | - |
| TOTAL EXPENDITURES | 2,730,232 | 2,730,232 | 2,994,427 | (264,195) |
| Excess (deficiency) of revenues over expenditures | - | - | - | - |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | - | - | - | - |
| SPECIAL ITEM | | | | |
| Proceeds from sale capital assets | - | - | - | - |
| Net change in fund balances | \$ - | \$ - | - | \$ - |
| Fund balances - Beginning | | | - | |
| FUND BALANCES - Ending | | | \$ - | |

Lincoln County School District No. 2
Notes to Budgetary Comparison Schedules
June 30, 2017

1. Basis of Presentation

The budgetary comparison schedules have been prepared on the modified accrual basis of accounting, which is the same budgetary basis used by the District.

2. Excess of Actual Expenditures over Budget

Actual expenditures exceed the budget in the Capital Construction, and Local, State, and Federal Grants funds. Monies were available to cover the overages.

Lincoln County School District No. 2
Schedule of Employer's Share of Net Pension Liability-WRS Public Employees' Pension Plan
Last 10 Fiscal Years*

| | 2017 | 2016 |
|---|---------------|---------------|
| Employer's portion of the net liability | 1.3085887% | 1.293620801% |
| Employer's proportionate share of the net pension liability | \$ 31,635,135 | \$ 30,132,928 |
| Employer's covered-employee payroll | \$ 23,330,896 | \$ 22,561,703 |
| Employer's proportional share of the net pension liability as a percentage of it's covered-employee payroll | 135.59% | 133.56% |
| Plan fiduciary net position as a percentage of the total pension liability | 73.42% | 73.40% |
| | 2015 | |
| Employer's portion of the net pension liability | 1.303130516% | |
| Employer's proportionate share of the net pension liability | \$ 22,996,243 | |
| Employer's covered-employee payroll | \$ 22,275,875 | |
| Employer's proportional share of the net pension liability as a percentage of its covered-employee payroll | 103.23% | |
| Plan fiduciary net position as a percentage of the total pension liability | 79.08% | |

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Data reported is measured as of December 31, 2016, 2015, and 2014.

Lincoln County School District No. 2
Schedule of Employer Contributions-WRS Public Employees' Pension Plan
Last 10 Fiscal Years*

| | 2017 | 2016 |
|--|---------------|---------------|
| Statutorily required contribution | \$ 2,279,715 | \$ 2,178,609 |
| Contributions in relation to the statutorily required contribution | \$ 1,982,364 | \$ 1,870,865 |
| Contribution (deficiency) excess | \$ 297,351 | \$ 307,744 |
| Employer's covered-employee payroll | \$ 23,330,896 | \$ 22,561,703 |
| Contributions as a percentage of covered-employee payroll | 8.50% | 8.29% |

| | 2015 |
|--|---------------|
| Statutorily required contribution | \$ 2,385,855 |
| Contributions in relation to the statutorily required contribution | \$ 1,689,219 |
| Contribution (deficiency) excess | \$ 696,636 |
| Employer's covered-employee payroll | \$ 22,275,875 |
| Contributions as a percentage of covered-employee payroll | 7.58% |

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Data is reported is measured as of December 31, 2016, 2015, and 2014.

Lincoln County School District No. 2
Notes to WRS Public Employees' Pension Plan Schedules
For the Year Ended June 30, 2017

1. There were no changes in benefit terms during the Plan year ended December 31, 2016.
2. There were no changes in composition of the population during the Plan year ended December 31, 2016.
3. There were no changes in actuarial assumptions during the Plan year ended December 31, 2016.

Compliance Reports

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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***

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Lincoln County School District No. 2
Afton, Wyoming 83110

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 Lincoln County School District No. 2 as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Lincoln County School District No. 2's basic financial statements and have issued our report thereon dated November 9, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lincoln County School District No. 2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lincoln County School District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 a 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lincoln School District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions

of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Entity's Response to Findings

Lincoln County School District No. 2's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Lincoln County School District No. 2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Searle Hart & Associates PLLC

Rexburg, Idaho
November 9, 2017

Lincoln County School District No. 2
Schedule of Expenditures of Federal Awards
June 30, 2017

| Name | CFDA Number | Passthrough Number | Passed Through to Subrecipients | Expenditures |
|---|-------------|-----------------------|---------------------------------------|--------------|
| Passed through Wyoming Department of Education | | | | |
| U.S. Department of Education | | | | |
| Title I-A - Local Education Agencies (Basic) Title I Cluster | 84.010 | 1712027T1A00 | - | \$ 718,011 |
| Title VI-B - Federal Special Education K-12 | 84.027 | 1712027T6100 | - | 703,945 |
| Title VI-B - Federal Special Education Preschool | 84.173 | 1712027T6900 | - | 6,931 |
| Total Special Education Cluster (IDEA) | | | | 710,876 |
| Title II-A - Teacher Quality | 84.367 | 1712027T2A00 | - | 278,726 |
| Title III - Immigrant | 84.365 | 1512025T3100 | - | 5,272 |
| 21st Century Grant - Cohort 9 | 84.287 | 1612026CC10A00 | - | 145,648 |
| Carl Perkins Federal Vocational Education | 84.048 | 1712027PS00 | - | 97,576 |
| Total U.S. Department of Education | | | | 1,956,109 |
| U.S. Department of Agriculture | | | | |
| USDA School Lunch | 10.555 | 1202000 | - | 377,699 |
| USDA School Breakfast | 10.553 | 1202000 | - | 62,142 |
| USDA Value of Commodities | 10.555 | 1202000 | - | 59,612 |
| Total School Lunch Cluster | | | | 499,453 |
| USDA Fresh Fruits and Vegetable Program | 10.582 | 1202000 | - | 84,944 |
| Total U.S. Department of Agriculture | | | | 584,397 |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | | | \$ 2,540,506 |

Lincoln County School District No. 2
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lincoln County School District No. 2 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of Lincoln County School District No. 2, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Lincoln County School District No. 2.

2. Nonmonetary Transactions

Nonmonetary assistance is reported for the Commodity Food Distribution Program at the fair market value of the commodities received, as established by the Wyoming Department of Education. The District held an undetermined amount of those commodities as part of its food inventory at June 30, 2017.

3. Indirect Cost Rates

Lincoln County School District No. 2 has elected to not use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

**Report on Compliance For Each Major Federal
Program and on Internal Control Over Compliance
Required By The Uniform Guidance**

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Lincoln County School District No. 2
Afton, Wyoming 83110

Report on Compliance for Each Major Federal Program

We have audited Lincoln County School District No. 2's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Lincoln County School District No. 2's major federal programs for the year ended June 30, 2017. Lincoln County School District No. 2's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lincoln County School District No. 2's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lincoln County School District No. 2's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Lincoln County School District No. 2's compliance.

Opinion on Each Major Federal Program

In our opinion, Lincoln County School District No. 2 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Lincoln County School District No. 2 is responsible for establishing and maintaining effective internal control over compliance with the types requirements referred to above. In planning and performing our audit of compliance, we considered Lincoln County School District No. 2's internal control over compliance with types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lincoln County School District No. 2's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Searle Hart + Associates PLLC

Rexburg, Idaho

November 9, 2017

Lincoln County School District No. 2
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I – Summary of Auditor’s Results:

Financial Statements

The Report of Independent Auditor expresses an unmodified opinion on the basic financial statements of Lincoln County School District No. 2

The audit identified one significant deficiency in internal control over financial reporting (2017-001).

The audit identified no significant deficiencies in internal control over financial reporting that are considered to be material weaknesses.

The audit identified no instances of noncompliance material to the financial statements of Lincoln County School District No. 2.

Federal Awards

The report of independent auditor expresses an unmodified opinion on compliance for major programs.

The audit identified no significant deficiencies in internal control over compliance for major programs.

The audit identified no significant deficiencies in internal control over compliance for major programs that are considered to be material weaknesses.

The audit disclosed no compliance findings that are required to be reported in accordance with 2 CFR 200.516(a).

Identification of Major Programs:

| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
|--------------------|----------------------------------|
| 84.027, 173 | Special Education Cluster (IDEA) |

The dollar threshold used to distinguish type A and B programs was \$750,000.

The auditee did qualify as a low-risk auditee.

Lincoln County School District No. 2
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section II – Financial Statement Findings:

This section identifies the audit findings (significant deficiencies, material weaknesses, and instances of noncompliance material to the financial statements) related to the basic financial statements.

Finding 2017-001

| | |
|-----------------------------|--|
| <i>Condition</i> | The size of the District's staff is not large enough to permit a complete segregation of duties for an effective system of internal controls. |
| <i>Criteria</i> | An effective system of internal controls requires that closely related duties be segregated. |
| <i>Context</i> | Because of review by the Board of District financial transactions, the risk is reduced but errors could still occur and not be detected in the normal course of business. |
| <i>Effect</i> | The concentration of closely related duties and responsibilities by a small staff makes it difficult to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. |
| <i>Cause</i> | The District's staff is too small to allow a complete segregation of duties. |
| <i>Recommendation</i> | Although the District is not large enough to permit a complete segregation of duties for an effective system of internal accounting control, we recommend that officials be aware that the condition does exist and take steps to identify opportunities to further segregate duties where possible. |
| <i>Managements Response</i> | Although the District recognizes the importance of segregation of duties for proper internal control, the District does not believe it would be cost effective to increase its staff size simply to provide greater segregation of duties. The District will be cognizant of opportunities that arise to further segregate duties within the limitations of the District's size. |

Lincoln County School District No. 2
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs:

None

Lincoln County School District No. 2
Status of Prior Year Findings
Year Ended June 30, 2017

Finding 2016-001

| | |
|------------------|---|
| <i>Condition</i> | The size of the District's staff is not large enough to permit a complete segregation of duties for an effective system of internal controls. |
| <i>Status</i> | This condition existed again in the current year |