



Financial Statements
June 30, 2015

Groton Area School District 06-6

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Independent Auditor's Report

The School Board
Groton Area School District 06-6
Groton, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Groton Area School District 06-6 (the School District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Groton Area School District 06-6, as of June 30, 2015, and the respective changes in financial position and, where, applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Notes 1 and 11 to the financial statements, the School District has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of July 1, 2014. Our opinions were not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules of funding progress, net pension liability (asset), pension contribution and budgetary comparison information on pages 40 through 51 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2016 on our consideration of the School District's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Erik Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
March 18, 2016

Groton Area School District 06-6
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,424,143	\$ 61,008	\$ 3,485,151
Taxes receivable	2,405,541	-	2,405,541
Accounts receivable	612,666	4,276	616,942
Inventories	-	6,284	6,284
Net pension asset	1,416,931	35,658	1,452,589
Capital assets:			
Land, improvements and construction in progress	103,596	-	103,596
Other capital assets, net of depreciation	5,761,721	25,733	5,787,454
Total assets	<u>13,724,598</u>	<u>132,959</u>	<u>13,857,557</u>
Deferred Outflows of Resources			
Pension related deferred outflows	1,261,133	31,539	1,292,672
	<u>\$ 14,985,731</u>	<u>\$ 164,498</u>	<u>\$ 15,150,229</u>
Liabilities			
Accounts payable	\$ 463,563	\$ -	\$ 463,563
Unearned revenue	-	11,173	11,173
Noncurrent liabilities:			
Due within one year	402,407	-	402,407
Due in more than one year	2,440,967	-	2,440,967
Total liabilities	<u>3,306,937</u>	<u>11,173</u>	<u>3,318,110</u>
Deferred Inflows of Resources			
Pension related deferred inflows	1,641,044	41,298	1,682,342
Taxes levied for future period	2,441,085	-	2,441,085
Total deferred inflows of resources	<u>4,082,129</u>	<u>41,298</u>	<u>4,123,427</u>
Net Position			
Net investment in capital assets	3,261,327	25,733	3,287,060
Restricted for:			
Capital Outlay	688,364	-	688,364
Special Education	199,882	-	199,882
Pension	5,177	-	5,177
SDRS Benefits	1,037,020	25,899	1,062,919
Debt Service	144,924	-	144,924
North Central Special Education	292,894	-	292,894
Unrestricted	1,967,077	60,395	2,027,472
Total net position	<u>7,596,665</u>	<u>112,027</u>	<u>7,708,692</u>
	<u>\$ 14,985,731</u>	<u>\$ 164,498</u>	<u>\$ 15,150,229</u>

Groton Area School District 06-6
Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government						
Governmental activities:						
Instruction	\$ 3,097,299	\$ 233,611	\$ 678,878	\$ (2,184,810)	\$ -	\$ (2,184,810)
Support services	3,216,625	870	-	(3,215,755)	-	(3,215,755)
Community services	996	-	-	(996)	-	(996)
*Interest on long-term debt	137,624	-	-	(137,624)	-	(137,624)
Cocurricular activities	542,410	137,681	-	(404,729)	-	(404,729)
Total governmental activities	6,994,954	372,162	678,878	(5,943,914)	-	(5,943,914)
Business-type activities:						
Food service	263,034	181,351	84,625	-	2,942	2,942
After school program	48,253	47,643	1,500	-	890	890
Driver's education	6,626	8,080	-	-	1,454	1,454
Total business-type activities	317,913	237,074	86,125	-	5,286	5,286
Total primary government	\$ 7,312,867	\$ 609,236	\$ 765,003	(5,943,914)	5,286	(5,938,628)
General Revenues						
Taxes:						
Property taxes				4,939,882	-	4,939,882
Gross receipts tax				612,707	-	612,707
Revenue from State sources:						
State aid				368,481	-	368,481
Other				173,708	-	173,708
Revenue from Federal sources				28,222	-	28,222
Grants and contributions not restricted to specific programs				10,079	-	10,079
Unrestricted investment earnings				677	-	677
Other general revenues				142,232	-	142,232
Total general revenues				6,275,988	-	6,275,988
Change in Net Position				332,074	5,286	337,360
Net Position - Beginning, as previously stated				6,503,896	87,598	6,591,494
Change in Reporting, GASB 68 (See Note 11)				760,695	19,143	779,838
Net Position - Beginning, as Restated				7,264,591	106,741	7,371,332
Net Position - Ending				\$ 7,596,665	\$ 112,027	\$ 7,708,692

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

Groton Area School District 06-6
Balance Sheet – Governmental Funds
June 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	North Central Special Education Cooperative	Bond Redemption Fund	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 1,926,124	\$ 714,565	\$ 270,256	\$ 4,428	\$ 361,514	\$ 147,256	\$ 3,424,143
110 Taxes receivable - current	1,403,736	502,431	277,386	95,514	-	104,221	2,383,288
112 Taxes receivable - delinquent	13,534	4,549	2,474	749	-	947	22,253
120 Accounts receivable	499,599	-	-	-	-	-	499,599
140 Due from state government	113,067	-	-	-	-	-	113,067
	<u>\$ 3,956,060</u>	<u>\$ 1,221,545</u>	<u>\$ 550,116</u>	<u>\$ 100,691</u>	<u>\$ 361,514</u>	<u>\$ 252,424</u>	<u>\$ 6,442,350</u>
Liabilities, Deferred Inflows of Resources and Fund Balances							
Liabilities							
402 Accounts payable	\$ -	\$ 8,181	\$ -	\$ -	\$ -	\$ -	\$ 8,181
404 Contracts payable	224,587	-	39,133	-	52,279	-	315,999
450 Payroll deductions and withholdings and employer matching payable	101,941	-	21,101	-	16,341	-	139,383
Total liabilities	<u>326,528</u>	<u>8,181</u>	<u>60,234</u>	<u>-</u>	<u>68,620</u>	<u>-</u>	<u>463,563</u>
Deferred Inflows of Resources							
553 Taxes levied for future period	1,423,071	525,000	290,000	95,514	-	107,500	2,441,085
551 Unavailable revenue - delinquent property taxes	13,534	4,549	2,474	749	-	947	22,253
Total deferred inflows of resources	<u>1,436,605</u>	<u>529,549</u>	<u>292,474</u>	<u>96,263</u>	<u>-</u>	<u>108,447</u>	<u>2,463,338</u>
Fund Balances							
Restricted:							
Capital Outlay	-	683,815	-	-	-	-	683,815
Special Education	-	-	197,408	-	-	-	197,408
Pension	-	-	-	4,428	-	-	4,428
North Central Special Education Cooperative	-	-	-	-	265,489	-	265,489
Bond Redemption	-	-	-	-	-	143,977	143,977
Assigned:							
Unemployment	32,052	-	-	-	27,405	-	59,457
Unassigned	2,160,875	-	-	-	-	-	2,160,875
Total fund balances	<u>2,192,927</u>	<u>683,815</u>	<u>197,408</u>	<u>4,428</u>	<u>292,894</u>	<u>143,977</u>	<u>3,515,449</u>
	<u>\$ 3,956,060</u>	<u>\$ 1,221,545</u>	<u>\$ 550,116</u>	<u>\$ 100,691</u>	<u>\$ 361,514</u>	<u>\$ 252,424</u>	<u>\$ 6,442,350</u>

Groton Area School District 06-6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2015

Total Fund Balances - Governmental Funds	\$ 3,515,449
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and; therefore, are not reported in the funds.	5,865,317
Long-term liabilities, including bonds payable, financing lease payables, OPEB obligations, special assessment payables and early retirement payables are not due and payable in the current period and; therefore, are not reported in the funds.	(2,843,374)
Assets such as taxes receivable (delinquent) and special assessment receivables (current, delinquent and unearned) are not available to pay for current period expenditures and; therefore, are deferred inflows of resources in the funds.	22,253
Net pension asset, pension related deferred inflows of resources, and pension related deferred outflows of resources do not represent available financial resources and; therefore, are not reported in the funds.	<u>1,037,020</u>
Net Position - Governmental Funds	<u><u>\$ 7,596,665</u></u>

Groton Area School District 06-6
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	North Central Special Education Cooperative	Bond Redemption Fund	Total Governmental Funds
Revenues							
1000 Revenue from local sources							
1100 Taxes:							
1110 Ad valorem taxes	\$ 2,843,274	\$ 1,058,480	\$ 584,374	\$ 202,226	\$ -	\$ 216,849	\$ 4,905,203
1120 Prior year's ad valorem taxes	9,495	4,371	2,368	811	-	817	17,862
1140 Gross receipt taxes	612,707	-	-	-	-	-	612,707
1190 Penalties and interest on taxes	5,048	1,701	929	318	-	377	8,373
1300 Tuition and fees:							
1310 Tuition from other LEAs	4,781	-	-	-	-	-	4,781
1360 Regular day school transportation fees	870	-	-	-	-	-	870
1500 Earnings on investments and deposits	577	-	-	-	100	-	677
1700 Cocurricular activities:							
1710 Admissions	45,796	-	-	-	-	-	45,796
1740 Rentals	2,347	-	-	-	-	-	2,347
1790 Other pupil activity income	89,538	-	-	-	-	-	89,538
1900 Other revenue from local sources:							
1910 Rentals	1,223	-	-	-	-	-	1,223
1920 Contributions and donations	8,721	1,358	-	-	-	-	10,079
1940 Services provided other LEAs	-	-	21,106	-	189,855	-	210,961
1970 Charges for services	8,182	-	9,687	-	-	-	17,869
1990 Other	28,888	1,834	515	-	4,215	-	35,452
2000 Revenue from intermediate sources							
2100 County sources:							
2110 County apportionment	43,641	-	-	-	-	-	43,641
2200 Revenue in lieu of taxes	207	134	74	25	-	-	440
3000 Revenue from State sources							
3100 Grants-in-aid:							
3110 Unrestricted grants-in-aid	368,481	-	-	-	-	-	368,481
3120 Restricted grants-in-aid	8,375	-	-	-	-	-	8,375
3900 Other State revenue	1,613	-	149	-	171,946	-	173,708
4000 Revenue from Federal sources							
4100 Grants-in-aid:							
4130 Unrestricted grants-in-aid received from Federal government through an intermediate source	12,718	-	-	-	-	-	12,718
4140 Restricted grants-in-aid received directly from federal government	19,655	-	-	-	-	-	19,655
4150-4199 Restricted grants-in-aid received from Federal government through the State	92,822	18,250	20,276	-	506,782	-	638,130
4900 Other Federal revenue	982	27,240	-	-	-	-	28,222
Total revenues	4,209,941	1,113,368	639,478	203,380	872,898	218,043	7,257,108

Groton Area School District 06-6
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	North Central Special Education Cooperative	Bond Redemption Fund	Total Governmental Funds
Expenditures							
1000 Instruction							
1100 Regular programs:							
1110 Elementary	814,087	3,788	-	35,409	26,607	-	879,891
1120 Middle school/junior high	344,398	18,447	-	15,206	-	-	378,051
1130 High school	711,172	85,265	-	29,684	-	-	826,121
1140 Preschool services	28,214	5,497	-	1,238	-	-	34,949
1150 Class size reduction program	45,806	-	-	-	-	-	45,806
1190 Other regular programs	46,008	2,576	-	1,608	-	-	50,192
1200 Special programs:							
1210 Gifted and talented	1,728	-	-	90	-	-	1,818
1220 Programs for special education	-	4,152	509,176	19,530	196,164	-	729,022
1230 At-risk youth	20,577	-	22,405	-	-	-	42,982
1250 Culturally different	27,023	-	-	902	-	-	27,925
1270 Educationally deprived	124,550	-	-	-	-	-	124,550
2000 Support services							
2100 Pupils:							
2120 Guidance	106,306	207	-	4,369	-	-	110,882
2130 Health	33,347	6,721	970	1,386	-	-	42,424
2140 Psychological	-	-	10,817	-	150,802	-	161,619
2150 Speech pathology	-	-	20,724	-	334,177	-	354,901
2170 Student therapy services	-	-	66,928	47	-	-	66,975
2200 Support services - instructional staff:							
2210 Improvement of instruction	15,158	-	-	15	230,013	-	245,186
2220 Educational media	133,344	135,041	-	4,112	-	-	272,497
2300 Support services - general administration:							
2310 Board of education	41,289	61,293	-	-	-	-	102,582
2320 Executive administration	147,539	-	-	5,782	29,974	-	183,295
2400 Support services - school administration:							
2410 Office of the principal	250,081	420	-	8,869	-	-	259,370
2490 Other	211	-	-	-	-	-	211
2500 Support services - business:							
2520 Fiscal services	126,149	438	-	4,279	79,778	-	210,644
2530 Facilities acquisition and construction	-	91,275	-	-	-	-	91,275
2540 Operation and maintenance of plant	544,784	56,785	-	9,936	-	-	611,505
2550 Pupil transportation	288,576	3,119	-	5,786	-	-	297,481

Groton Area School District 06-6
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	North Central Special Education Cooperative	Bond Redemption Fund	Total Governmental Funds
2700 Support services - special education:							
2710 Administrative costs	-	-	13,414	-	-	-	13,414
2730 Transportation costs	-	-	15,544	-	-	-	15,544
2740 Other health impairments	-	-	428	-	-	-	428
2750 Other special education costs	-	-	3,434	-	-	-	3,434
4000 Nonprogrammed charges							
4500 Early retirement payments	765	-	-	40,000	-	-	40,765
5000 Debt services	-	370,683	-	-	-	217,959	588,642
6000 Cocurricular activities							
6900 Combined activities	385,356	110,501	-	10,704	-	-	506,561
7500 Capital outlay	-	175,218	-	-	-	-	175,218
Total expenditures	<u>4,236,468</u>	<u>1,131,426</u>	<u>663,840</u>	<u>198,952</u>	<u>1,047,515</u>	<u>217,959</u>	<u>7,496,160</u>
Excess of Revenue over (under) Expenditures	<u>(26,527)</u>	<u>(18,058)</u>	<u>(24,362)</u>	<u>4,428</u>	<u>(174,617)</u>	<u>84</u>	<u>(239,052)</u>
Other Financing Sources (Uses)							
5120 General long-term debt issued	-	65,397	-	-	-	-	65,397
5130 Sale of surplus property	1,625	-	-	-	-	-	1,625
Total other financing sources (uses)	<u>1,625</u>	<u>65,397</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,022</u>
Net Change in Fund Balances	(24,902)	47,339	(24,362)	4,428	(174,617)	84	(172,030)
Fund Balance - Beginning	2,217,829	636,476	221,770	-	467,511	143,893	3,687,479
Fund Balance - Ending	<u>\$ 2,192,927</u>	<u>\$ 683,815</u>	<u>\$ 197,408</u>	<u>\$ 4,428</u>	<u>\$ 292,894</u>	<u>\$ 143,977</u>	<u>\$ 3,515,449</u>

Groton Area School District 06-6

Reconciliation to the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-
Wide Statement of Activities
Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds	\$ (172,030)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$333,221) exceeded capital outlay (\$175,218) in the current period.	(158,003)
In both the government-wide and fund financial statements, revenues from tax levies are applied to finance the budget of a particular period. Accounting for revenues from tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria".	8,444
The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government-wide statements.	(65,397)
The accrual of OPEB costs are not reflected in governmental funds, but the statement of activities reflects the changes in this liability from one year to the next.	(29,048)
Repayment of early retirement principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. New early retirement approved was \$20,000, payments of early retirement were \$40,000.	20,000
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	451,783
Revenues and reductions of expenses related to pensions do not provide current financial resources and; therefore, are not reported in the funds.	<u>276,325</u>
Change in Net Position of Governmental Activities	<u><u>\$ 332,074</u></u>

Groton Area School District 06-6
Statement of Net Position – Proprietary Funds
June 30, 2015

	Enterprise Funds		
	Food Service Fund	Other	Total
Assets			
Current Assets			
101 Cash and cash equivalents	\$ 42,224	\$ 18,784	\$ 61,008
120 Accounts receivable	-	4,276	4,276
170 Inventory of supplies	1,045	-	1,045
171 Inventory of stores purchased for resale	4,135	-	4,135
172 Inventory of donated food	1,104	-	1,104
Total current assets	<u>48,508</u>	<u>23,060</u>	<u>71,568</u>
Noncurrent Assets			
196 Net Pension Asset	24,752	10,906	35,658
200 Capital assets:			
204 Machinery and equipment - local funds	118,391	-	118,391
Less accumulated depreciation	<u>(92,658)</u>	<u>-</u>	<u>(92,658)</u>
Total noncurrent assets	<u>50,485</u>	<u>10,906</u>	<u>61,391</u>
Deferred Outflows of Resources			
252 Pension related deferred outflows	<u>21,826</u>	<u>9,713</u>	<u>31,539</u>
	<u>\$ 120,819</u>	<u>\$ 43,679</u>	<u>\$ 164,498</u>
Liabilities			
400 Current liabilities			
474 Unearned revenue	<u>\$ 9,371</u>	<u>\$ 1,802</u>	<u>\$ 11,173</u>
Total current liabilities	<u>9,371</u>	<u>1,802</u>	<u>11,173</u>
Deferred Inflows of Resources			
554 Pension related deferred inflows	<u>28,667</u>	<u>12,631</u>	<u>41,298</u>
Net Position			
706 Net investment in capital assets	25,733	-	25,733
707.2 SDRS pension benefits	17,911	7,988	25,899
708 Unrestricted net position	<u>39,137</u>	<u>21,258</u>	<u>60,395</u>
Total net position	<u>82,781</u>	<u>29,246</u>	<u>112,027</u>
	<u>\$ 120,819</u>	<u>\$ 43,679</u>	<u>\$ 164,498</u>

Groton Area School District 06-6
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
Year Ended June 30, 2015

	Enterprise Funds		
	Food Service Fund	Other	Total
Operating Revenue			
Tuition and fees			
1310 Student tuition	\$ -	\$ 8,000	\$ 8,000
1980 Parent tuition	-	47,262	47,262
Sales:			
1610 To pupils	158,303	-	158,303
1620 To adults	2,114	-	2,114
1660 Other	19,888	-	19,888
Pension revenue	1,046	461	1,507
Total operating revenue	<u>181,351</u>	<u>55,723</u>	<u>237,074</u>
Operating Expenses			
100 Salaries	82,042	39,095	121,137
200 Employee benefits	25,521	10,025	35,546
300 Purchased services	11,944	1,156	13,100
400 Supplies	12,206	4,603	16,809
461 Cost of sales - purchased food	103,399	-	103,399
462 Cost of sales - donated food	22,268	-	22,268
910 Depreciation - local funds	5,654	-	5,654
Total operating expenses	<u>263,034</u>	<u>54,879</u>	<u>317,913</u>
Operating Income (Loss)	<u>(81,683)</u>	<u>844</u>	<u>(80,839)</u>
Nonoperating Revenue			
State sources:			
3000 State Grant	-	1,500	1,500
3810 Cash reimbursements	1,530	-	1,530
Federal sources:			
4810 Cash reimbursements	63,883	-	63,883
4820 Donated food	19,212	-	19,212
Total nonoperating revenue	<u>84,625</u>	<u>1,500</u>	<u>86,125</u>
Change in Net Position	<u>2,942</u>	<u>2,344</u>	<u>5,286</u>
Net Position - Beginning, as Previously Stated	66,551	21,047	87,598
Change in Reporting, GASB 68 (See Note 11)	<u>13,288</u>	<u>5,855</u>	<u>19,143</u>
Net Position - Beginning, as Restated	<u>79,839</u>	<u>26,902</u>	<u>106,741</u>
Net Position - Ending	<u>\$ 82,781</u>	<u>\$ 29,246</u>	<u>\$ 112,027</u>

Groton Area School District 06-6
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2015

	Enterprise Funds		
	Food Service Fund	Other	Total
Cash Flows used for Operating Activities			
Receipts from customers	\$ 181,126	\$ 51,637	\$ 232,763
Payments to suppliers	(157,860)	(17,456)	(175,316)
Payments to employees	(82,042)	(39,095)	(121,137)
Net Cash used for Operating Activities	<u>(58,776)</u>	<u>(4,914)</u>	<u>(63,690)</u>
Cash Flows used for Capital and Related Financing Activities			
Purchase of capital assets	<u>(3,180)</u>	<u>-</u>	<u>(3,180)</u>
Cash Flows from Noncapital Financing Activities			
Operating subsidies	<u>65,414</u>	<u>1,500</u>	<u>66,914</u>
Net Change in Cash and Cash Equivalents	3,458	(3,414)	44
Cash and Cash Equivalents Beginning of Year	<u>38,766</u>	<u>22,198</u>	<u>60,964</u>
Cash and Cash Equivalents End of Year	<u>\$ 42,224</u>	<u>\$ 18,784</u>	<u>\$ 61,008</u>
Reconciliation of Operating Income (Loss) to Net Cash used for Operating Activities			
Operating income (loss)	\$ (81,683)	\$ 844	\$ (80,839)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:			
Depreciation expense	5,654	-	5,654
Non-cash inventory costs	22,268	-	22,268
Change in assets and liabilities:			
Accounts receivable	-	(2,072)	(2,072)
Inventories	(1,213)	-	(1,213)
Pension deferred inflows	28,667	12,631	41,298
Pension asset and deferred outflows	(33,290)	(14,764)	(48,054)
Unearned revenue	821	(1,553)	(732)
Net Cash used for Operating Activities	<u>\$ (58,776)</u>	<u>\$ (4,914)</u>	<u>\$ (63,690)</u>
Noncash Investing, Capital and Financing Activities			
Value of commodities received	\$ 19,212	\$ -	\$ 19,212

Groton Area School District 06-6
Statement of Fiduciary Net Position
June 30, 2015

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
Assets		
Cash	\$ -	\$ 209,042
Investments	93,212	-
	<u>\$ 93,212</u>	<u>\$ 209,042</u>
Liabilities		
Amounts held for others	<u>\$ -</u>	<u>\$ 209,042</u>
Total liabilities	<u>-</u>	<u>209,042</u>
Net Position		
Net position held in trust for scholarships	<u>93,212</u>	<u>-</u>
Total net position	<u>93,212</u>	<u>-</u>
	<u>\$ 93,212</u>	<u>\$ 209,042</u>

Groton Area School District 06-6
Statement of Changes in Fiduciary Net Position
June 30, 2015

	Private Purpose Trust Fund
Additions	
Contributions and donations	\$ 100,001
Investment income	3,738
Total additions	103,739
Deductions	
Scholarships	10,000
Investments fees	527
Total deductions	10,527
Change in Net Position	93,212
Net Position - Beginning	-
Net Position - Ending	\$ 93,212

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Groton Area School District 06-6 (the School District) conform to generally accepted accounting principles applicable to government entities in the United States of America.

Financial Reporting Entity

The School District was formed July 1, 2004. The School District formation is the result of the consolidation of Groton Area School District 06-6 and Bristol School District No. 18-1, as approved by voters in the respective districts. The School District consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the School District's financial statements to be misleading or incomplete.

The School District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the School District as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

Basis of Presentation

The financial statements of the School District have been prepared in accordance with generally accepted accounting principles (GAAP) as presented by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for governmental accounting and financial reporting.

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The funds of the School District are described below within their respective fund types.

Governmental Funds

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the School District, excluding Capital Outlay Fund and Special Education Fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Capital Outlay, Special Education, Pension and North Central Special Education Cooperative Funds are the special revenue funds maintained by the School District.

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the School District. This fund is financed by grants and property taxes. This is a major fund.

Pension Fund - A fund established by SDCL 13-10-6 for the purpose of continuing a fund for the payment of pensions to retired employees of school districts, which have established such systems. This fund is financed by property taxes. This is a major fund.

North Central Special Education Cooperative - A fund established to provide special education services to participating school districts. This is a major fund.

Debt Service Fund Types - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

The Bond Redemption Fund - A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. The Bond Redemption Fund is the only debt service fund maintained by the School District. This is a major fund.

Proprietary Funds

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

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Other Fund – A fund used to record financial transactions related to the driver’s education operations and the after school program operations. This fund is financed by tuition charges and the after school program. This is a major fund.

Fiduciary Funds

Fiduciary Funds are never considered to be major funds.

Agency Fund Types - Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds to account for student funds generated within the School District by the students or other School District organizations.

Private –Purpose Trust Fund Types – Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefits individuals, private organizations, or other governments. The School District maintains the following private-purpose trust fund, which is used for the purpose of providing scholarships to students:

- Dick and Gert Ruden Scholarship Fund

Measurement Focus and Basis of Accounting

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

Measurement Focus

Government-Wide Financial Statements

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and similar trust funds.

Basis of Accounting

Government-Wide Financial Statements

In the government-wide statement of net position and statement of activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the School District, the length of that cycle is 60 days. Utility tax receivables and grant receivables which are accrued at June 30, 2015 are due from the state government for \$113,067 and the counties for \$499,599.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

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

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as internal balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

Fund Financial Statements

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

Inventory

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO). Donated commodities are valued at estimated market value based on the USDA price list at date of receipt. In the government-wide financial statements and the proprietary funds in the fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the governmental fund financial statements, inventories in the General Fund and special revenue funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a non-spendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. The School District did not have any material amounts of inventory in the General Fund or special revenue funds.

Capital Assets

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

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

Government-Wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2015 balance of capital assets for governmental activities is all valued at original cost. The total June 30, 2015 balance of capital assets for business-type activities are all valued at original cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide statement of activities, with net capital assets reflected in the statement of net position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land*	All	N/A	N/A
Improvements	\$ 5,000	Straight-line	15-25 years
Buildings	25,000	Straight-line	50 years
Machinery and equipment	5,000	Straight-line	5-20 years

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

Fund Financial Statements

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

Unearned Revenue

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported unearned revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of long-term bonds and financing leases.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

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

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

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance current year's appropriations and; therefore, are not susceptible to accrual, has been reported as deferred inflows of resources in both the fund financial statements and government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period".

Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's statement of activities, revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Cash and Cash Equivalents

The School District pools its cash resources for deposit purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit balances are considered to be cash equivalents for the purpose of the statement of cash flows.

Equity Classifications

Government-Wide Statements

Equity is classified as net position and is displayed in three components:

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

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between non-spendable, restricted, committed, assigned and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for agency funds, which have no fund equity) is reported as net position held in trust for other purposes.

Application of Net Position

It is the School District’s policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Balance Classification Policies and Procedures

In accordance with GASB No. 54, the School District classifies governmental fund balances as follows:

- Nonspendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the School Board or Business Manager.
- Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

The School District does not have a formal minimum fund balance policy.

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Capital Outlay	Property taxes
Special Education	Property taxes, grants and State aid
Pension	Property taxes
North Central Special Education Cooperative	Grants

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows/inflows of resources, and pension expense (revenue) information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deductions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Implementation of GASB Statement No. 68 and GASB Statement No. 71

As of July 1, 2014, the School District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The effect of the implementation of these standards on beginning net position is disclosed in Note 11.

Deferred Inflows and Outflows of Resources

In addition to assets, the statement of financial position 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 that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has two types of items that qualify for reporting in this category. The District reports unavailable revenues from property taxes on the government-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item relates to changes in the net pension liability (asset) not included in pension expense report in the government-wide statement of net position.

Rounding

Computer generated rounding variances exist in the basic financial statements and supplementary information. The variances result from values being entered with cents rather than as whole numbers.

Note 2 - Deposits and Investments

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits

The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota. As of June 30, 2015, the financial institution that holds the School District's deposits was properly collateralized.

Deposits are reported at cost plus interest, if the account is of the add-on type.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the fund making the investment.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned. The School District does not have a policy on custodial credit risk. Wells Fargo Bank, which holds all the School District's deposits, pledged securities in the amount over \$250,000 for all public school district funds. The financial institution where the collateral is held must be a member of the Federal Reserve.

The actual bank balances at June 30, 2015 were as follows:

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 826,505
Uninsured, collateral jointly held by State's/School District's agent in the name of the State and the pledging financial institution	2,943,505
	\$ 3,770,010
The School District's carrying amount of deposits at June 30, 2015	\$ 3,694,193

Reconciliation of deposits to government-wide statement of net position:

Cash and cash equivalents	\$ 3,485,151
Add: Agency fund cash (not included in government-wide statement of net position)	209,042
	\$ 3,694,193

Investments

In general, SDCL 4-5-6 permits School District funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Custodial Credit Risk – For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have an investment policy for custodial risk. When the School District does own investments, they are held in the School District's name.

Interest Rate Risk – The School District had no investments at June 30, 2015 and 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 – Currently, the School District has no policy in regard to credit risk.

Concentration of Credit Risk – The School District does not have a policy in place.

Note 3 - Changes in Capital Assets

A summary of changes in capital assets for the year ended June 30, 2015 is as follows:

Primary Government Governmental Activities	Balance 7/1/2014	Increases	Decreases	Balance 6/30/2015
Capital assets not being depreciated:				
Land	\$ 103,596	\$ -	\$ -	\$ 103,596
Total capital assets not being depreciated	103,596	-	-	103,596
Capital assets being depreciated:				
Buildings	8,441,871	-	-	8,441,871
Improvements other than buildings	918,376	35,255	-	953,631
Machinery and equipment	1,610,637	139,963	87,762	1,662,838
Total capital assets being depreciated	10,970,884	175,218	87,762	11,058,340
Less accumulated depreciation for:				
Buildings	3,430,508	182,125	-	3,612,633
Improvements other than buildings	347,527	67,251	-	414,778
Machinery and equipment	1,273,125	83,845	87,762	1,269,208
Total accumulated depreciation	5,051,160	333,221 **	87,762	5,296,619
Total capital assets being depreciated, net	5,919,724	(158,003)	-	5,761,721
Governmental activity capital assets, net	<u>\$ 6,023,320</u>	<u>\$ (158,003)</u>	<u>\$ -</u>	<u>\$ 5,865,317</u>

** Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 48,540
Support services	233,549
Community services	996
Co-curricular activities	50,136
Total depreciation expense - governmental activities	<u>\$ 333,221</u>

Proprietary Fund	Balance 7/1/2014	Increases	Decreases	Balance 6/30/2015
Capital assets being depreciated:				
Machinery and equipment	\$ 115,211	\$ 3,180	\$ -	\$ 118,391
Total capital assets being depreciated	115,211	3,180	-	118,391
Less accumulated depreciation for:				
Machinery and equipment	87,004	5,654 **	-	92,658
Total accumulated depreciation	87,004	5,654	-	92,658
Total capital assets being depreciated, net	28,207	(2,474)	-	25,733
Proprietary fund activities capital assets, net	<u>\$ 28,207</u>	<u>\$ (2,474)</u>	<u>\$ -</u>	<u>\$ 25,733</u>

** Depreciation expense was charged to functions as follows:

Proprietary fund activities:	
Food services	\$ 5,654
Total depreciation expense - proprietary fund activities	<u>\$ 5,654</u>

Note 4 - Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2015 is as follows:

Governmental Activities	7/1/2014	Increase	Decrease	6/30/2015	Due In One Year
General obligation	\$ 2,863,031	\$ -	\$ (366,745)	\$ 2,496,286	\$ 326,051
Financing (capital acquisition) leases	104,350	65,397	(75,727)	94,020	52,672
Special assessment debt	22,995	-	(9,311)	13,684	13,684
Early retirement payable	45,000	20,000	(40,000)	25,000	10,000
OPEB obligation	185,336	48,634	(19,586)	214,384	-
	<u>\$ 3,220,712</u>	<u>\$ 134,031</u>	<u>\$ (511,369)</u>	<u>\$ 2,843,374</u>	<u>\$ 402,407</u>

Primary Government

Governmental Activities

Debt payable at June 30, 2015 is comprised of the following:

General Obligation Bonds		
Series 2009 General Obligation Bonds, matures December 2020, with interest rates varying from 1.25%-4.00% for the life of the loan, paid by the Bond Redemption Fund.	\$ 1,165,000	
Series 2009 General Obligation Bonds (Build America Bonds), matures December 2022 with interest rate of 5.85% for the life of the loan, paid by the Capital Outlay Fund.	1,331,286	
Financing (Capital Acquisition) Leases		
Northland Financial, computers, matures July 2016, 2.83% interest, annual payments of \$23,768 paid by the Capital Outlay Fund.	43,802	
Northland Financial, computers, matures July 2015, 3.20% interest, annual payments of \$24,573, paid by the Capital Outlay Fund.	23,114	
Marco, Inc. ,copiers, matures October 2018, 1.799% interest, monthly payments of \$698.65, paid by the Capital Outlay Fund.	27,104	
Special Assessment Payable		
City of Groton, curb and gutter assessments, matures October 2015, 5.17% interest rate, annual payments of \$10,550, paid by the Capital Outlay Fund.	13,684	
Early Retirement		
Requires annual payments of not more than \$10,000 from the penion fund final payment in fiscal year 2019.	<u>25,000</u>	
	<u>\$ 2,628,990</u>	

The purchase price at the commencement of the financing (capital acquisition) leases was:

Principal	\$ 173,197
Interest	8,531
	<u>181,728</u>
	<u>\$ 181,728</u>

The annual debt service requirements to maturity for all debt outstanding as of June 30, 2015 are as follows:

Year Ending June 30,	G O Bonds Payable		Financing (Capital Acquisition Leases)		Special Assessment		Early Retirement	Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2016	\$ 326,051	\$ 113,303	\$ 52,672	\$ 2,316	\$ 13,684	\$ 707	\$ 10,000	\$ 402,407	\$ 116,326
2017	339,720	99,020	30,311	906	-	-	5,000	375,031	99,926
2018	348,904	83,917	8,253	131	-	-	5,000	362,157	84,048
2019	373,632	67,733	2,784	10	-	-	5,000	381,416	67,743
2020	388,938	50,132	-	-	-	-	-	388,938	50,132
2021-2023	719,041	49,726	-	-	-	-	-	719,041	49,726
	<u>\$ 2,496,286</u>	<u>\$ 463,831</u>	<u>\$ 94,020</u>	<u>\$ 3,363</u>	<u>\$ 13,684</u>	<u>\$ 707</u>	<u>\$ 25,000</u>	<u>\$ 2,628,990</u>	<u>\$ 467,901</u>

Included in the Marco, Inc. lease agreement is a servicing agreement for the copiers and printers at the School District. A total monthly payment for the serving portion of the lease is \$1,035 at the end of 2015 with a 1.10% increase in total payment per year and matures in October, 2018. Required minimum lease payments for this portion of the lease are as follows:

Year	Amount
2016	\$ 14,494
2017	16,781
2018	6,003
	<u>37,278</u>
	<u>\$ 37,278</u>

Note 5 - Special Termination Benefits

The School District has an early retirement policy in which the employee will receive a one-time benefit of \$20,000 payable in three different options, \$5,000 paid directly to retiree over 4 years, \$5,000 paid to a tax free investment plan for 4 years or \$20,000 moved to a trust and agency account to pay for health insurance until completely spent. The employee must meet the following criteria: the employee has served the School District for at least 15 years and is between the ages of 55 and 63 as of June 30 of the retirement year. The maximum number of recipients approved in any one year shall not exceed four, and the chronological order in which the applications are received will determine the priority of the recipients. During the 2015 fiscal year, there was one new employee approved to receive the benefits.

Note 6 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There have been no decreases in coverage from the previous fiscal year and settled claims have not exceeded coverage in any of the three previous fiscal years. During the year ended June 30, 2015, the School District managed its risks as follows:

Employee Health Insurance

The School District joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides for a \$1000 to \$2500 deductible per person up to \$2000 to \$5,000 per family, 80/20% coinsurance with up to 80% of \$10,000 to \$20,000 and a lifetime maximum of \$2,000,000 per person.

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

At June 30, 2015, the South Dakota School District Health Benefits Fund had a deficit net position. The Fund is changing its third party administrator to gain network efficiencies and increasing premiums to recover this deficit. They currently do not plan to assess participants. The School District would have a liability for their share of the deficit, should they decide to leave the plan..

Liability Insurance

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

Worker's Compensation Insurance

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

Unemployment Benefits

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

The School District has assigned fund balance in the General Fund in the amount of \$32,052 for the payment of future unemployment benefits. The North Central Special Education Cooperative Special Revenue Fund has assigned \$27,405 for the payment of future unemployment benefits.

At June 30, 2015, no claims had been filed for unemployment benefits and no claims are anticipated for unemployment in the next fiscal year for the General Fund or the North Central Special Education Cooperative Special Revenue Fund.

Note 7 - Restricted Net Position

The following table shows the net assets restricted for other purposes as shown on the statement of net position:

Fund	Restricted By	Amount
Capital Outlay	Law	\$ 688,364
Special Education	Law	199,882
Debt Service	Law	144,924
Pension	Law	5,177
SDRS Pension Benefits	Law	1,062,919
North Central Special Education	Federal Regulation	292,894
		\$ 2,394,160

Note 8 - Joint Ventures

The School District participates in the Northern High Tech Modules Consortium (Co-op), formed for the purpose of providing services to the member school districts.

The members of the Co-op and their relative percentage of participation are:

Edmunds Central School District	12.5%
Groton Area School District	12.5%
Eureka School District	12.5%
Ipswich School District	12.5%
Leola School District	12.5%
Herreid School District	12.5%
Selby Area School District	12.5%
Warner School District	12.5%

The Edmunds Central School District serves as the school of record and the advisory board is composed of one representative from each school district, who is the Superintendent. The Board oversees adopting the budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity interest in the net assets, but does have a responsibility to fund deficits in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from Northern High Tech Modules Consortium.

At June 30, 2015, this joint venture had total fund equity of \$154,829 and no long-term debt.

Note 9 - Post-Employment Healthcare Plan

Plan Description

Groton School District Healthcare Plan is a single-employer defined benefit healthcare plan administered by the School District. The Plan provides medical insurance benefits to eligible retirees and their spouses as permitted by South Dakota Codified Law 13-10-3. Benefit provisions were established and may be amended during the negotiated agreement process between School District certified staff and the governing board. The health plan does not issue separately stated stand-alone financial statements.

Funding Policy

The contribution requirements of plan members and the School District are established and may be amended during the negotiated agreement process between School District certified staff and the governing board. A teacher or administrator, who retires from the School District on or after the age of 55 and with at least 10 years of consecutive service with the School District, may be eligible for retiree health insurance coverage. Coverage ceases when the retiree attains the age of 65. The retiree is responsible for 105% of the full active premium rates for either single or family coverage.

Annual OPEB Cost and Net OPEB Obligation

The School Districts annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB accounting Standards Codification Topic ASC P50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the financial components of the plan:

Annual required contribution (ARC)	\$ 48,634
Interest on net OPEB obligation	10,193
Adjustment to annual required contribution	<u>(10,193)</u>
Annual OPEB cost	48,634
Contributions made	<u>(19,586)</u>
 Increase in net OPEB obligation	 29,048
 Net OPEB obligation - July 1, 2014	 <u>185,336</u>
 Net OPEB obligation - June 30, 2015	 <u><u>\$ 214,384</u></u>

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

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2015	\$ 48,634	40.3%	\$ 214,384
2014	68,263	47.6%	185,336
2013	77,077	72.7%	149,553

Funded Status and Funding Process

As of June 30, 2015, the most recent actuarial valuation date, the plan’s actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was \$419,071. The School District’s plan is considered to be unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the plan is unfunded, the AAL and UAAL are equal. The covered payroll (annual payroll of active employees covered by the plan) was \$3,671,890 and the UAAL to the covered payroll was 11.41%.

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

Actuarial Methods and Assumptions

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

The following simplifying assumptions were made:

- Retirement Age for Active Employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at a varying range from 55 to 64, or at the first subsequent year in which the member would qualify for benefits.
- Marital Status – Marital status of members at the calculation date was assumed to continue throughout retirement.
- Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The RP2014 Mortality Tables with Scale MP-2014.

- Turnover – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.
- Healthcare Cost Trend Rate – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 10.0% initially, reduced to an ultimate rate of 5.0% after six years, was used.
- Health Insurance Premiums – 2015 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.
- Inflation Rate – The expected long-term inflation assumption of 3.0 %.
- Payroll Growth Rate – The expected long-term payroll growth rate was 4.0%.

In the June 30, 2015 valuation, the School District assumes it will fund the retirement benefit on a pay-as-you-go basis. The UAAL is being amortized as a level percentage of projected payrolls over a thirty year time period.

Note 10 - Pension Plan

Plan Information

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

Benefits Provided

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

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

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary, Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ending June 30, 2015, 2014 and 2013 were \$221,557, \$211,701 and \$202,356 respectively, equal to the required contributions each year.

Pension Assets, Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2014, SDRS is 107% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of SDRS, for the School District as of June 30, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 21,386,930
Less proportionate share of total pension liability	<u>19,934,341</u>
Proportionate share of net pension asset	<u><u>\$ 1,452,589</u></u>

The net pension asset was measured as of June 30, 2014 and the total pension liability used to calculate the net pension asset was determined by actuarial value as of that date. At June 30, 2015, the School District reported an asset of \$1,452,589 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension asset used to calculate the net pension asset was based on a projection of the School District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the School District's proportion was .2016198%.

For the year ended June 30, 2015, the School District recognized pension revenue of \$61,357. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 122,909	\$ -
Changes in assumption	948,206	-
Net difference between projected and actual earnings on pension plan investments	-	1,682,342
Changes in proportion and difference between School District contributions and proportionate share of contributions	-	-
School District contributions subsequent to the measurement date	221,557	-
	<u>\$ 1,292,672</u>	<u>\$ 1,682,342</u>

There is \$221,557 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year Ended June 30:	Amount
2016	\$ (115,425)
2017	(115,425)
2018	(115,425)
2019	(264,952)
	<u>\$ (611,227)</u>

Actuarial Assumptions

The total pension asset in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Investment rate of return	7.25% through 2016 and 7.50% thereafter, net of pension plan investment expense

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.7%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.5%
Cash	2.0%	0.8%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension asset was 7.25% through 2016 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of Asset to Changes in the Discount Rate

The following presents the School District's proportionate share of net pension asset calculated using the discount rate of 7.25% through 2016 and 7.50% thereafter, as well as what the School District's proportionate share of the net pension asset would be if it were calculated using a discount rate that is one percentage point lower (6.25/6.50%) or one percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of The net pension asset (liability)	\$ (1,435,430)	\$ 1,452,589	\$ 3,808,129

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2010. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Pension Plan Fiduciary Net Position

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

Note 11 - Restatement of Beginning Net Position

As of July 1, 2014, the School District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date.

	Governmental Activities	Business-Type Activities	Total
Net position at June 30, 2014, as previously stated	\$ 6,503,896	\$ 87,598	\$ 6,591,494
Net pension asset at June 30, 2014	554,503	13,954	568,457
Deferred outflows of resources related to contributions made during the year ended June 30, 2014	<u>206,192</u>	<u>5,189</u>	<u>211,381</u>
Net position at July 1, 2014, as restated	<u>\$ 7,264,591</u>	<u>\$ 106,741</u>	<u>\$ 7,371,332</u>

The business-type activities fund each required as restatement as follows:

	Food Service Fund	Other Enterprise Fund	Business-Type Activities Total
Net position at June 30, 2014, as previously stated	\$ 66,551	\$ 21,047	\$ 87,598
Net pension asset at June 30, 2014	9,686	4,268	13,954
Deferred outflows of resources related to contributions made during the year ended June 30, 2014	<u>3,602</u>	<u>1,587</u>	<u>5,189</u>
Net position at July 1, 2014, as restated	<u>\$ 79,839</u>	<u>\$ 26,902</u>	<u>\$ 106,741</u>



Required Supplementary Information
June 30, 2015

Groton Area School District 06-6

Groton Area School District 06-6
 Schedule of Funding Progress
 Year Ended June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Unit Credit (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/30/2015	\$ -	\$ 419,071	\$ 419,071	0.00%	\$ 3,671,890	11.41%
6/30/2014	-	628,590	628,590	0.00%	2,865,004	21.94%
6/30/2013	-	657,880	657,880	0.00%	2,620,216	25.11%

Groton Area School District 06-6
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 2,781,012	\$ 2,781,012	\$ 2,843,274	\$ 62,262
1120 Prior year's ad valorem taxes	10,000	10,000	9,495	(505)
1140 Gross receipts taxes	575,000	575,000	612,707	37,707
1190 Penalties and interest on taxes	4,400	4,400	5,048	648
1300 Tuition and fees:				
1310 Regular day school tuition	4,781	4,781	4,781	-
1360 Regular day school transportation fees	1,200	1,200	870	(330)
1500 Earnings on investments and deposits	500	500	577	77
1700 Cocurricular activities:				
1710 Admissions	38,000	38,000	45,796	7,796
1740 Rentals	1,500	1,500	2,347	847
1790 Other pupil activity income	60,600	60,600	89,538	28,938
1900 Other revenue from local sources:				
1910 Rentals	1,000	1,000	1,223	223
1920 Contributions and donations	8,000	8,000	8,721	721
1970 Charges for services	24,000	24,000	8,182	(15,818)
1990 Other	10,000	10,000	28,888	18,888
2000 Revenue from intermediate sources				
2100 County sources:				
2110 County apportionment	48,500	48,500	43,641	(4,859)
2200 Revenue in lieu of taxes	100	100	207	107
3000 Revenue from State sources				
3100 Grants-in-aid:				
3110 Unrestricted grants-in-aid	315,974	315,974	368,481	52,507
3120 Restricted grants-in-aid	-	-	8,375	8,375
3900 Other State revenue	1,000	1,000	1,613	613
4000 Revenue from Federal sources:				
4100 Grants-in-aid:				
4130 Unrestricted grants-in-aid received from Federal government through an intermediate source	6,000	6,000	12,718	6,718
4140 Restricted grants-in-aid received directly from Federal government	19,655	19,655	19,655	-
4150-4199 Restricted grants-in-aid received from Federal government through the State	90,995	90,995	92,822	1,827
4900 Other Federal revenue	800	800	982	182
Total revenues	4,003,017	4,003,017	4,209,941	206,924
Expenditures				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	831,115	831,115	814,087	17,028
1111 Middle school/junior high	351,440	351,440	344,398	7,042
1130 High school	730,056	730,056	711,172	18,884
1140 Preschool services	28,609	28,609	28,214	395
1150 Class size reduction program	45,306	45,807	45,806	1
1190 Other regular programs	49,552	49,552	46,008	3,544

Groton Area School District 06-6
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
1200 Special programs:				
1210 Gifted and talented	3,860	3,860	1,728	2,132
1230 At-risk youth	19,993	20,577	20,577	-
1250 Culturally different	26,582	27,023	27,023	-
1270 Educationally deprived	123,810	124,550	124,550	-
2000 Support services				
2100 Pupils:				
2120 Guidance	109,372	109,372	106,306	3,066
2130 Health	35,121	35,121	33,347	1,774
2200 Support services - instructional staff:				
2210 Improvement of instruction	18,420	18,420	15,158	3,262
2220 Educational media	143,612	143,612	133,344	10,268
2300 Support services - general administration:				
2310 Board of education	52,644	52,644	41,289	11,355
2320 Executive administration	151,223	151,223	147,539	3,684
2400 Support services - school administration:				
2410 Office of the principal	261,422	261,422	250,081	11,341
2490 Other	1,500	1,500	211	1,289
2500 Support services - business:				
2520 Fiscal services	125,163	126,150	126,149	1
2530 Facilities acquisition and construction	6,000	6,000	-	6,000
2540 Operation and maintenance of plant	619,256	619,256	544,784	74,472
2550 Pupil transportation	334,719	334,719	288,576	46,143
4000 Nonprogrammed charges				
4400 Payments to State - unemployment	4,000	4,000	-	4,000
4500 Early retirement payments	43,110	43,110	765	42,345
6000 Cocurricular activities				
6900 Combined activities	408,829	409,747	385,356	24,391
7000 Contingencies	50,000	45,829	-	45,829
Total expenditures	<u>4,574,714</u>	<u>4,574,714</u>	<u>4,236,468</u>	<u>338,246</u>
Excess of Revenue over (under) Expenditures	<u>(571,697)</u>	<u>(571,697)</u>	<u>(26,527)</u>	<u>545,170</u>
Other Financing Sources (Uses)				
5130 Sale of surplus property	50	50	1,625	1,575
8110 Transfers out	(1,000)	(1,000)	-	1,000
Total other financing sources (uses)	<u>(950)</u>	<u>(950)</u>	<u>1,625</u>	<u>2,575</u>
Net Change in Fund Balances	(572,647)	(572,647)	(24,902)	547,745
Fund Balance - Beginning	<u>2,217,829</u>	<u>2,217,829</u>	<u>2,217,829</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,645,182</u>	<u>\$ 1,645,182</u>	<u>\$ 2,192,927</u>	<u>\$ 547,745</u>

Groton Area School District 06-6
 Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 1,055,500	\$ 1,055,500	\$ 1,058,480	\$ 2,980
1120 Prior year's ad valorem taxes	3,000	3,000	4,371	1,371
1190 Penalties and interest on taxes	2,000	2,000	1,701	(299)
1900 Other revenue from local sources:	-	-	1,834	1,834
1920 Contributions and donations	-	-	1,358	1,358
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	100	100	134	34
4000 Revenue from Federal sources	18,250	18,250	18,250	-
4900 Other Federal revenue	26,446	26,446	27,240	794
	<u>1,105,296</u>	<u>1,105,296</u>	<u>1,113,368</u>	<u>8,072</u>
Total revenues				
Expenditures				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	4,650	4,650	3,788	862
1120 Junior High/Middle School	20,250	20,250	18,447	1,803
1130 High school	30,825	30,825	85,265	(54,440)
1140 Preschool services	8,500	8,500	5,497	3,003
1190 Other regular programs	2,000	2,577	2,576	1
1200 Special programs:				
1220 Programs for special education	5,875	5,875	4,152	1,723
1230 At-risk youth	75	75	-	75
2000 Support services				
2100 Pupils:				
2120 Guidance	575	575	207	368
2130 Health	6,500	6,721	6,721	-
2200 Support services - instructional staff:				
2220 Educational media	166,320	166,320	135,041	31,279
2300 Support services - general administration:				
2310 Board of education	61,000	61,293	61,293	-
2320 Executive administration	300	300	-	300
2400 Support services - school administration:				
2410 Office of the principal	1,350	1,350	420	930
2500 Support services - business:				
2520 Fiscal services	1,000	1,000	438	562
2530 Facilities acquisition and construction	199,550	199,550	181,649	17,901
2540 Operation and maintenance of plant	68,500	68,500	56,785	11,715
2550 Pupil transportation	82,000	82,000	87,963	(5,963)
5000 Debt services	372,222	372,222	370,683	1,539
6000 Cocurricular activities				
6900 Combined activities	121,160	121,160	110,501	10,659
	<u>1,152,652</u>	<u>1,153,743</u>	<u>1,131,426</u>	<u>22,317</u>
Total expenditures				

Groton Area School District 06-6
 Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Excess of Revenue over (under) Expenditures	(47,356)	(48,447)	(18,058)	30,389
Other Financing Sources (Uses)				
5120 Proceeds of general long-term liabilities	-	-	65,397	65,397
Total other financing sources (uses)	-	-	65,397	65,397
Net Change in Fund Balances	(47,356)	(48,447)	47,339	95,786
Fund Balance - Beginning	636,476	636,476	636,476	-
Fund Balance - Ending	\$ 589,120	\$ 588,029	\$ 683,815	\$ 95,786

Groton Area School District 06-6
 Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 583,000	\$ 583,000	\$ 584,374	\$ 1,374
1120 Prior year's ad valorem taxes	1,800	1,800	2,368	568
1190 Penalties and interest on taxes	1,200	1,200	929	(271)
1900 Other revenue from local sources:				
1940 Services provided other LEAs	21,100	21,100	21,106	6
1970 Charges for services	11,500	11,500	9,687	(1,813)
1990 Other	515	515	515	-
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	50	50	74	24
3000 Revenue from State sources				
3900 Other State revenue	100	100	149	49
4000 Revenue from Federal sources:				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from Federal government through the State	20,276	20,276	20,276	-
Total revenues	<u>639,541</u>	<u>639,541</u>	<u>639,478</u>	<u>(63)</u>
Expenditures				
1000 Instruction				
1200 Special programs:				
1220 Programs for special education	567,701	567,701	509,176	58,525
1230 At-risk youth	23,046	23,046	22,405	641
2000 Support services				
2100 Pupils:				
2130 Health	20,000	20,000	970	19,030
2140 Psychological	11,818	11,818	10,817	1,001
2150 Speech pathology	21,471	21,471	20,724	747
2170 Student therapy services	63,010	69,758	66,928	2,830
2200 Support services - instructional staff:				
2210 Improvement of instruction	500	500	-	500
2300 Support services - general administration:				
2310 Board of education	1,000	1,000	-	1,000
2700 Support services - special education:				
2710 Administrative costs	13,644	13,644	13,414	230
2720 Speech/language impairments	-	-	-	-
2730 Transportation costs	23,071	24,726	15,544	9,182
2740 Other health impairments	840	840	428	412
2750 Other special education costs	6,261	6,261	3,434	2,827
Total expenditures	<u>752,362</u>	<u>760,765</u>	<u>663,840</u>	<u>96,925</u>
Net Change in Fund Balances	(112,821)	(121,224)	(24,362)	96,862
Fund Balance - Beginning	<u>221,770</u>	<u>221,770</u>	<u>221,770</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 108,949</u>	<u>\$ 100,546</u>	<u>\$ 197,408</u>	<u>\$ 96,862</u>

Groton Area School District 06-6
 Budgetary Comparison Schedule – Budgetary Basis – Pension Fund
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 200,650	\$ 200,650	\$ 202,226	\$ 1,576
1120 Prior year's ad valorem taxes	300	300	811	511
1190 Penalties and interest on taxes	200	200	318	118
2000 Revenue from intermediate sources			25	25
2200 Revenue in lieu of taxes	-	-		
Total revenues	<u>201,150</u>	<u>201,150</u>	<u>203,380</u>	<u>2,230</u>
Expenditures				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	46,598	46,598	35,409	11,189
1111 Middle school/junior high	21,397	21,397	15,206	6,191
1130 High school	39,401	39,401	29,684	9,717
1140 Preschool services	1,719	1,719	1,238	481
1190 Other regular programs	2,625	2,625	1,608	1,017
1200 Special programs:				
1210 Gifted and talented	121	121	90	31
1220 Programs for special education	27,774	27,774	19,530	8,244
1250 Culturally different	1,254	1,254	902	352
2000 Support services				
2100 Pupils:				
2120 Guidance	6,335	6,335	4,369	1,966
2130 Health	2,109	2,109	1,386	723
2170 Student therapy services	70	70	47	23
2200 Support services - instructional staff:				
2210 Improvement of instruction	30	30	15	15
2220 Educational media	5,638	5,638	4,112	1,526
2300 Support services - general administration:				
2320 Executive administration	8,139	8,139	5,782	2,357
2400 Support services - school administration:				
2410 Office of the principal	12,881	12,881	8,869	4,012
2500 Support services - business:				
2520 Fiscal services	5,859	5,859	4,279	1,580
2540 Operation and maintenance of plant	12,747	12,747	9,936	2,811
2550 Pupil transportation	3,944	3,944	5,786	(1,842)
2560 Food services	4,124	4,124	-	4,124
3000 Community services				
3500 Custody and care of children	1,441	1,441	-	1,441
3900 Other	356	356	-	356
4000 Nonprogrammed charges				
4500 Early retirement payments	40,000	40,000	40,000	-
6000 Cocurricular activities				
6900 Combined activities	15,438	15,438	10,704	4,734
Total expenditures	<u>260,000</u>	<u>260,000</u>	<u>198,952</u>	<u>61,048</u>
Net Change in Fund Balances	(58,850)	(58,850)	4,428	63,278
Fund Balance - Beginning	-	-	-	-
Fund Balance - Ending	<u>\$ (58,850)</u>	<u>\$ (58,850)</u>	<u>\$ 4,428</u>	<u>\$ 63,278</u>

Groton Area School District 06-6
 Budgetary Comparison Schedule – Budgetary Basis – North Central Special Education
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1500 Earnings on investments and deposits	\$ 120	\$ 120	\$ 100	\$ (20)
1900 Other revenue from local sources:				
1940 Services provided other LEAs	191,963	191,963	189,855	(2,108)
1990 Other	1,200	1,200	4,215	3,015
3000 Revenue from State sources				
3100 Grants-in-aid:				
3120 Restricted grants-in-aid	187,431	187,431	171,946	(15,485)
4000 Revenue from federal sources				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from Federal government through the State	497,116	497,116	506,782	9,666
Total revenues	<u>877,830</u>	<u>877,830</u>	<u>872,898</u>	<u>(4,932)</u>
Expenditures				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	26,607	26,607	26,607	-
1200 Special programs:				
1220 Programs for special education	204,287	204,287	196,164	8,123
2000 Support services				
2100 Pupils:				
2142 Psychological services	156,415	156,415	150,802	5,613
2152 Speech pathology services	357,717	357,717	334,177	23,540
2200 Support services - instructional staff:				
2210 Improvement of instruction	241,755	241,755	230,013	11,742
2300 Support services - general administration:				
2320 Executive administration	29,295	29,295	29,974	(679)
2500 Support services - business:				
2520 Fiscal services	93,460	93,460	79,778	13,682
Total expenditures	<u>1,109,536</u>	<u>1,109,536</u>	<u>1,047,515</u>	<u>62,021</u>
Net Change in Fund Balances	(231,706)	(231,706)	(174,617)	57,089
Fund Balance - Beginning	<u>467,511</u>	<u>467,511</u>	<u>467,511</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 235,805</u>	<u>\$ 235,805</u>	<u>\$ 292,894</u>	<u>\$ 57,089</u>

Note 1 - Basis of Presentation

The budgetary comparison schedules have been prepared on the modified accrual basis of accounting. The budgetary comparison schedule presents expenditures for capital outlay purposes within each function while the governmental funds statement of revenues, expenditures, and changes in fund balance presents capital outlay expenditures as a separate function.

Note 2 - Budgetary Legal Requirements

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

1. Prior to the first regular School Board meeting in May of each year, the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in Number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total School District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
10. Formal budgetary integration is employed as a management control device during the year for the general fund, capital project funds, and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and special revenue funds of the School District only.

Groton Area School District 06-6
 Schedule of Net Pension Liability (Asset)
 June 30, 2015

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Employer's Percentage of the Net Pension Asset</u>	<u>Employer's Proportionate Share of the Net Pension Asset (a)</u>	<u>Employer's Covered- Employee Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Asset as a Percentage of its Covered- Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
SDRS	6/30/2014	<u>0.02016198%</u>	<u>\$ 1,452,589</u>	<u>\$ 3,525,783</u>	<u>41.2%</u>	<u>107.3%</u>

Groton Area School District 06-6
 Schedule of Pension Contributions
 June 30, 2015

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered- Employee Payroll (d)</u>	<u>Contributions as a Percentage of Covered- Employee Payroll (b/d)</u>
SDRS	6/30/2015	\$ 221,557	\$ 221,557	-	\$ 3,692,609	6.0%

Notes to Required Supplementary Information

There are no factors that affect trends in the amounts reported, such as change of benefit terms and assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the SDRS audited financial statements.



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The School Board
Groton Area School District 06-6
Groton, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Groton Area School District 06-6 (the School District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated March 18, 2016.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2015-A to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free from 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*.

School District's Response to Findings

Groton Area School District 06-6's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
March 18, 2016



CPAs & BUSINESS ADVISORS

Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by OMB Circular A-133

The School Board
Groton Area School District 06-6
Groton, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Groton Area School District 06-6’s (the School District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District’s major federal programs for the year ended June 30, 2015. The School District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on the compliance for each of the School District’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 the School District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of each of its major Federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of Groton Area School District 06-6 is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002 that we consider to be a significant deficiencies.

School District's Response to Findings

Groton Area School District 06-6's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is matter of public record and its distribution is not limited.



Aberdeen, South Dakota
March 18, 2016



Supplementary Information
June 30, 2015

Groton Area School District 06-6

Groton Area School District 06-6
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Pass-Through the SD Department of Education:		
Child Nutrition Cluster:		
Food Donation (Commodities Used)	10.555	\$ 19,212
School Breakfast Program (Note 2)	10.553	6,197
National School Lunch Program (Note 2)	10.555	<u>57,686</u>
Total U.S. Department of Agriculture		<u>83,095</u>
U.S. Department of Education		
Pass-Through the SD Department of Education:		
Title I Grants to Local Educational Agencies	84.010	52,128
Rural Education	84.358	19,655
Improving Teacher Quality State Grants (Title II)	84.367	40,694
Special Education Cluster:		
Pass-Through the SD Department of Education:		
Special Education - Grants to States (IDEA, Part B, P.L. 102-119) (Note 2)	84.027	478,493
Special Education - Preschool Grants (IDEA, Part B, Section 619, P.L. 102-119)	84.173	<u>17,095</u>
Total for Special Education Cluster		<u>495,588</u>
Special Education - Grants for Infants and Families	84.181	<u>11,976</u>
Total U.S. Department of Education		<u>620,041</u>
U.S. Department of Health and Human Services		
Pass through the SD Department of Social Services:		
Medical Assistance Program	93.778	<u>9,277</u>
Total U.S. Department of Health and Human Services		<u>9,277</u>
Grand Total		<u><u>\$ 712,413</u></u>

Note A – Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the Federal grant activity of the School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The School District received federal awards both directly from federal agencies and indirectly through pass-through entities.

Note B – Significant Accounting Policies

Governmental fund types account for the School District's federal grant activity. Therefore, expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available financial resources. The School District's summary of significant accounting policies is presented in Note 1 in the School District's basic financial statements.

Note C – Pass-through

The pass-through entity has not provided identifying numbers; therefore, they are not included in this schedule.

Note D – Food Donation

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2015, the School District had food commodities totaling \$1,104 in inventory.

Section I – Summary of Auditor’s Results

Part I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(s) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant Deficiency(s) identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	
<u>Name of Federal Program</u>	<u>CFDA Number(s)</u>
Special Education Cluster	84.027, 84.173
Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2015-A Preparation of Financial Statements, Footnotes, and Material Journal Entries

Condition: Groton Area School District 06-6 requested the external auditors to assist in the preparation of the financial statements, related footnotes and the schedule of expenditures of federal awards for the year ended June 30, 2015. As part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the School District's existing internal controls and; therefore, could result in a misstatement of the School District's financial statements.

Criteria: The School District's internal control structure should be designed to provide for the preparation of the financial statements, footnotes and the schedule of expenditures of federal awards, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Cause: The limited size of the School District's staff and resources cause the inability to prepare the financial statements and footnotes and could cause the need for auditors to at times propose material journal entries.

Effect: This condition may affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

Management Response and Corrective Action Plan

Response: Management accepts the risk associated with preparation of the final audited financial statements by the independent auditor.

Explanation of Disagreement: No disagreement noted.

Official Responsible for Ensuring Corrective Action Plan: Mike Weber, Business Manager

Planned Completion for Correction Action: Ongoing

Plan to Monitor Completion of Corrective Action: Ongoing

Section III – Federal Award Findings and Questioned Costs

**Department of Education Passed-through State of South Dakota
Special Education Cluster**

Special Education – Grants to States (IDEA, Part B) – CFDA #84.027

Special Education – Preschool Grants (IDEA, Preschool) – CFDA #84.173

Grant Year Ending June 30, 2015

Significant Deficiency in Internal Control over Compliance

2015-001 Period of Availability – Reimbursement of expenditures in incorrect year

Condition: When testing expenditures, it was noted that there were certain expenditures that were incurred in 2014 that were reimbursed with 2015 funds.

Criteria: The State requires expenditures to be reimbursed in the same year that these items are incurred under the correct grant year.

Cause: Mileage reimbursements and outside therapeutic services that occurred in 2014 were expensed and reimbursed with funds from 2015.

Questioned Cost: None.

Effect: Lack of review of the expenditures reimbursed caused items that would have been applicable in 2014 to be reimbursed with funds from 2015.

Recommendation: We recommend that the school district take increased care and attention in determining and reviewing when expenditures are recorded and submitted for reimbursement.

Management’s Response and Corrective Action Plan

Actions Planned in Response to the Finding: Management will perform a review of expenses prior to submission to ensure that these expenses are being reimbursed into the proper fiscal year.

Explanation of Disagreement: Management does not disagree.

Official Responsible for Ensuring Corrective Action Plan: Mike Weber, Business Manager

Planned Completion Date for Corrective Action: June 30, 2016

Plan to Monitor Completion of Corrective Action: Ongoing

**Department of Education Passed-through State of South Dakota
Special Education Cluster
Special Education – Grants to States (IDEA, Part B) – CFDA #84.027
Grant Year Ending June 30, 2015**

Significant Deficiency in Internal Control over Compliance

2015-002 Allowable Costs/Allowable Activities – Lack of proper signed certifications for payroll of special education teachers

Condition: When testing three individuals paid by program funding, it was noted that they did not have proper certifications signed for the second half of the year as required.

Criteria: As required by Circular A-87, semi-annual certifications are required to be completed for employees working 100% of their time in one program.

Cause: The required forms were missing at the end of the year for completion.

Questioned Cost: None.

Effect: Lack of controls over the required compliance requirement could result in employees being paid from funding in which they are not providing services.

Recommendation: We recommend that the school implement controls to ensure that forms are properly signed semi-annually. We also recommend that there is a review of those certifications to ensure they have been signed and completed on a timely basis.

Management’s Response and Corrective Action Plan

Actions Planned in Response to the Finding: The Director will ensure certifications are completed and signed on a semi-annual basis. This will be done following the completion of first semester. Staff will sign the certification at the first staff meeting of the second semester. The second semester certification will be signed at the end of the school year staff meeting, typically held in May. The Director will report to the NCSEC Advisory Board on a semi-annual basis when such certification has been completed by staff.

Explanation of Disagreement: Management does not disagree.

Official Responsible for Ensuring Corrective Action Plan: Kristi Hilzendeger, NCSEC Director

Planned Completion Date for Corrective Action: June 30, 2016

Plan to Monitor Completion of Corrective Action: Ongoing

None noted.