



Financial Statements  
June 30, 2018

# Groton Area School District 06-6

---

Independent Auditor’s Report.....	1
Financial Statements	
Statement of Net Position .....	3
Statement of Activities.....	4
Balance Sheets – Governmental Funds.....	5
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	6
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	7
Reconciliation to the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities .....	10
Statement of Net Position – Proprietary Funds.....	11
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....	12
Statement of Cash Flows – Proprietary Funds.....	13
Statements of Fiduciary Net Position.....	14
Statement of Changes in Fiduciary Net Position .....	15
Notes to Financial Statements.....	16
Required Supplementary Information	
Budgetary Comparison Schedule – Budgetary Basis – General Fund.....	38
Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund.....	40
Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund .....	42
Budgetary Comparison Schedule – Budgetary Basis – Pension Fund.....	43
Notes to Required Supplementary Information – Budgetary Comparison Schedules .....	44
Schedule of Employer’s Share of Net Pension Liability (Asset).....	45
Schedule of Employer’s Contributions .....	46
Notes to Required Supplementary Information – Pension Schedules.....	47
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 <i>Government Auditing Standards</i> .....	48
Schedule of Findings.....	50



## 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, 2018, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedules, schedule of employer's share of net pension liability (asset), and schedule of employer's contributions as listed on pages 38 through 47 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 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's 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.



Aberdeen, South Dakota  
December 21, 2018

Groton Area School District 06-6  
Statement of Net Position  
June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 3,287,708	\$ 48,129	\$ 3,335,837
Taxes receivable	2,766,757	-	2,766,757
Accounts receivable	697,195	6,410	703,605
Inventories	-	17,283	17,283
Net pension asset	15,018	429	15,447
Capital assets:			
Land, improvements and construction in progress	6,331,002	-	6,331,002
Other capital assets, net of depreciation	5,219,427	16,792	5,236,219
<b>Total assets</b>	<b>18,317,107</b>	<b>89,043</b>	<b>18,406,150</b>
<b>Deferred Outflows of Resources</b>			
Pension related deferred outflows	1,617,837	46,227	1,664,064
	<b>\$ 19,934,944</b>	<b>\$ 135,270</b>	<b>\$ 20,070,214</b>
<b>Liabilities</b>			
Accounts payable	\$ 22,668	\$ -	\$ 22,668
Other current liabilities	486,241	-	486,241
Unearned revenue	-	17,013	17,013
Noncurrent liabilities:			
Due within one year	819,374	-	819,374
Due in more than one year	8,466,373	-	8,466,373
<b>Total liabilities</b>	<b>9,794,656</b>	<b>17,013</b>	<b>9,811,669</b>
<b>Deferred Inflows of Resources</b>			
Pension related deferred inflows	289,882	8,283	298,165
Taxes levied for future period	2,887,697	-	2,887,697
<b>Total deferred inflows of resources</b>	<b>3,177,579</b>	<b>8,283</b>	<b>3,185,862</b>
<b>Net Position</b>			
Net investment in capital assets	3,786,772	16,792	3,803,564
Restricted for:			
Capital outlay	439,913	-	439,913
Pension	896	-	896
SDRS pension benefits	1,342,973	38,373	1,381,346
Debt service	131,814	-	131,814
Unrestricted	1,260,341	54,809	1,315,150
<b>Total net position</b>	<b>6,962,709</b>	<b>109,974</b>	<b>7,072,683</b>
	<b>\$ 19,934,944</b>	<b>\$ 135,270</b>	<b>\$ 20,070,214</b>

Groton Area School District 06-6  
Statement of Activities  
Year Ended June 30, 2018

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	\$ 3,283,974	\$ 20,422	\$ 131,628	\$ (3,131,924)	\$ -	\$ (3,131,924)
Support services	2,482,775	630	-	(2,482,145)	-	(2,482,145)
Community services	991	-	-	(991)	-	(991)
*Interest on long-term debt	336,655	-	-	(336,655)	-	(336,655)
Cocurricular activities	279,760	183,457	-	(96,303)	-	(96,303)
Total governmental activities	6,384,155	204,509	131,628	(6,048,018)	-	(6,048,018)
Business-type activities:						
Food service	248,027	149,471	68,021	-	(30,535)	(30,535)
After school program	77,555	60,687	11,368	-	(5,500)	(5,500)
Driver's education	(1,796)	13,300	-	-	15,096	15,096
Total business-type activities	323,786	223,458	79,389	-	(20,939)	(20,939)
Total primary government	\$ 6,707,941	\$ 427,967	\$ 211,017	(6,048,018)	(20,939)	(6,068,957)
General Revenues						
Taxes:						
Property taxes				5,051,425	-	5,051,425
Gross receipts tax				697,196	-	697,196
Revenue from State sources:						
State aid				323,799	-	323,799
Other				6,449	-	6,449
Revenue from Federal sources				18,935	-	18,935
Grants and contributions not restricted to specific programs				6,172	-	6,172
Unrestricted investment earnings				8,760	-	8,760
Other general revenues				74,505	-	74,505
Total general revenues				6,187,241	-	6,187,241
Transfers				(25,000)	25,000	-
Change in Net Position				114,223	4,061	118,284
Net Position - Beginning				6,848,486	105,913	6,954,399
Net Position - Ending				\$ 6,962,709	\$ 109,974	\$ 7,072,683

\* 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 Sheets – Governmental Funds  
June 30, 2018

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Elementary School Project Fund	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents	\$ 1,273,021	\$ 489,434	\$ 75,936	\$ -	\$ 134,553	\$ 1,314,764	\$ 3,287,708
110 Taxes receivable - current	1,499,079	700,043	420,024	-	99,372	-	2,718,518
112 Taxes receivable - delinquent	32,590	7,541	5,151	896	2,061	-	48,239
140 Due from local governments	558,963	-	-	-	-	-	558,963
140 Due from state government	138,232	-	-	-	-	-	138,232
	<u>\$ 3,501,885</u>	<u>\$ 1,197,018</u>	<u>\$ 501,111</u>	<u>\$ 896</u>	<u>\$ 235,986</u>	<u>\$ 1,314,764</u>	<u>\$ 6,751,660</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>							
<b>Liabilities</b>							
402 Accounts payable	\$ -	\$ 4,997	\$ 3,945	\$ -	\$ -	\$ 13,726	\$ 22,668
404 Contracts payable	239,149	-	43,604	-	-	-	282,753
406 Retainage payable	-	-	-	-	-	79,271	79,271
450 Payroll deductions and withholdings and employer matching payable	104,191	-	20,026	-	-	-	124,217
Total liabilities	<u>343,340</u>	<u>4,997</u>	<u>67,575</u>	<u>-</u>	<u>-</u>	<u>92,997</u>	<u>508,909</u>
<b>Deferred Inflows of Resources</b>							
553 Taxes levied for future period	1,580,152	752,108	451,265	-	104,172	-	2,887,697
551 Unavailable revenue - delinquent property taxes	32,590	7,541	5,151	896	2,061	-	48,239
Total deferred inflows of resources	<u>1,612,742</u>	<u>759,649</u>	<u>456,416</u>	<u>896</u>	<u>106,233</u>	<u>-</u>	<u>2,935,936</u>
<b>Fund Balances</b>							
<b>Restricted:</b>							
Capital outlay	-	432,372	-	-	-	-	432,372
Capital projects	-	-	-	-	-	1,221,767	1,221,767
Bond redemption	-	-	-	-	129,753	-	129,753
<b>Assigned:</b>							
Unemployment	32,052	-	-	-	-	-	32,052
Unassigned	1,513,751	-	(22,880)	-	-	-	1,490,871
Total fund balances	<u>1,545,803</u>	<u>432,372</u>	<u>(22,880)</u>	<u>-</u>	<u>129,753</u>	<u>1,221,767</u>	<u>3,306,815</u>
	<u>\$ 3,501,885</u>	<u>\$ 1,197,018</u>	<u>\$ 501,111</u>	<u>\$ 896</u>	<u>\$ 235,986</u>	<u>\$ 1,314,764</u>	<u>\$ 6,751,660</u>

Groton Area School District 06-6  
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
 June 30, 2018

---

Total Fund Balances - Governmental Funds	\$ 3,306,815
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.	11,550,429
Long-term liabilities, including bonds payable, financing lease payables, SD SDBF assessment, and early retirement payables are not due and payable in the current period and, therefore, are not reported in the funds.	(9,035,323)
Unamortized balance of premiums and discounts are not due and payable in the current period and, therefore, are not reported in the funds.	(250,424)
Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and, therefore, are deferred inflows of resources in the funds.	48,239
Net pension liability (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>1,342,973</u>
Net Position - Governmental Funds	<u><u>\$ 6,962,709</u></u>



Groton Area School District 06-6  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2018

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Elementary School Project Fund	Total Governmental Funds
Revenues							
1000 Revenue from local sources							
1100 Taxes:							
1110 Ad valorem taxes	\$ 2,944,826	\$ 1,114,019	\$ 768,380	\$ -	\$ 181,824	\$ -	\$ 5,009,049
1120 Prior year's ad valorem taxes	8,546	2,168	1,605	119	463	-	12,901
1140 Gross receipt taxes	697,196	-	-	-	-	-	697,196
1190 Penalties and interest on taxes	5,433	1,328	1,016	41	301	-	8,119
1300 Tuition and fees:							
1360 Regular day school transportation fees	630	-	-	-	-	-	630
1500 Earnings on investments and deposits	8,760	-	-	-	-	-	8,760
1700 Cocurricular activities:							
1710 Admissions	43,482	-	-	-	-	-	43,482
1740 Rentals	2,940	-	-	-	-	-	2,940
1790 Other pupil activity income	137,035	-	-	-	-	-	137,035
1900 Other revenue from local sources:							
1910 Rentals	3,250	-	-	-	-	-	3,250
1920 Contributions and donations	6,172	-	-	-	-	-	6,172
1970 Charges for services	6,989	-	13,433	-	-	-	20,422
1990 Other	23,366	315	2,614	-	-	-	26,295
2000 Revenue from intermediate sources							
2100 County sources:							
2110 County apportionment	44,427	-	-	-	-	-	44,427
2200 Revenue in lieu of taxes	263	136	109	-	-	-	508
3000 Revenue from State sources							
3100 Grants-in-aid:							
3110 Unrestricted grants-in-aid	323,799	-	-	-	-	-	323,799
3900 Other State revenue	1,488	-	4,961	-	-	-	6,449
4000 Revenue from Federal sources							
4100 Grants-in-aid:							
4130 Unrestricted grants-in-aid received from Federal government through an intermediate source	6,455	-	-	-	-	-	6,455
4140 Restricted grants-in-aid received directly from Federal government	17,217	-	-	-	-	-	17,217
4150-4199 Restricted grants-in-aid received from Federal government through the State	107,956	-	-	-	-	-	107,956
4900 Other Federal revenue	-	18,935	-	-	-	-	18,935
Total revenues	<u>4,390,230</u>	<u>1,136,901</u>	<u>792,118</u>	<u>160</u>	<u>182,588</u>	<u>-</u>	<u>6,501,997</u>

Groton Area School District 06-6  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2018

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Elementary School Project Fund	Total Governmental Funds
Expenditures							
1000 Instruction							
1100 Regular programs:							
1110 Elementary	1,076,602	73,243	-	-	-	-	1,149,845
1120 Middle school/junior high	474,926	19,286	-	-	-	-	494,212
1130 High school	990,280	40,425	-	-	-	-	1,030,705
1140 Preschool services	50,034	23	-	-	-	-	50,057
1190 Other regular programs	1,500	-	-	-	-	-	1,500
1200 Special programs:							
1210 Gifted and talented	3,703	-	-	-	-	-	3,703
1220 Programs for special education	-	4,086	676,732	-	-	-	680,818
1230 At-risk youth	42,505	376	-	-	-	-	42,881
1250 Culturally different	21,191	30	-	-	-	-	21,221
1270 Educationally deprived	135,916	-	-	-	-	-	135,916
2000 Support services							
2100 Pupils:							
2120 Guidance	134,931	145	-	-	-	-	135,076
2130 Health	40,456	1,331	-	-	-	-	41,787
2140 Psychological	-	-	14,187	-	-	-	14,187
2150 Speech pathology	-	214	33,921	-	-	-	34,135
2170 Student therapy services	-	-	90,976	-	-	-	90,976
2200 Support services - instructional staff:							
2210 Improvement of instruction	19,418	-	-	-	-	-	19,418
2220 Educational media	128,425	75,587	-	-	-	-	204,012
2300 Support services - general administration:							
2310 Board of education	127,159	-	-	-	-	-	127,159
2320 Executive administration	131,477	375	-	-	-	-	131,852
2400 Support services - school administration:							
2410 Office of the principal	281,072	1,085	-	-	-	-	282,157
2490 Other	751	-	-	-	-	-	751
2500 Support services - business:							
2520 Fiscal services	175,628	-	-	-	-	-	175,628
2530 Facilities acquisition and construction	-	72,812	-	-	-	28,955	101,767
2540 Operation and maintenance of plant	645,796	25,074	-	-	-	-	670,870
2550 Pupil transportation	289,753	30,856	-	-	-	-	320,609

Groton Area School District 06-6  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2018

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Elementary School Project Fund	Total Governmental Funds
2700 Support services - special education:							
2710 Administrative costs	-	-	14,292	-	-	-	14,292
2730 Transportation costs	-	-	8,021	-	-	-	8,021
2740 Other health impairments	-	-	7,049	-	-	-	7,049
2750 Other special education costs	-	-	4,234	-	-	-	4,234
4000 Nonprogrammed charges							
4500 Early retirement payments	5,383	-	-	-	-	-	5,383
5000 Debt services	-	808,225	-	-	201,933	-	1,010,158
6000 Cocurricular activities							
6900 Combined activities	206,930	33,893	-	-	-	-	240,823
7500 Capital outlay	-	22,295	-	-	-	3,472,510	3,494,805
<b>Total expenditures</b>	<b>4,983,836</b>	<b>1,209,361</b>	<b>849,412</b>	<b>-</b>	<b>201,933</b>	<b>3,501,465</b>	<b>10,746,007</b>
<b>Excess of Revenue over (under) Expenditures</b>	<b>(593,606)</b>	<b>(72,460)</b>	<b>(57,294)</b>	<b>160</b>	<b>(19,345)</b>	<b>(3,501,465)</b>	<b>(4,244,010)</b>
Other Financing Sources							
5510 Transfers in	275,160	-	-	-	-	-	275,160
8110 Transfer out	(25,000)	(275,000)	-	(160)	-	-	(300,160)
5120 General long-term debt issued	-	55,071	-	-	-	-	55,071
5130 Sale of surplus property	25	-	-	-	-	-	25
8120 Payment to refunded debt escrow agency	-	-	-	-	-	-	-
8150 Premium on bonds issued	-	-	-	-	-	-	-
<b>Total other financing sources</b>	<b>250,185</b>	<b>(219,929)</b>	<b>-</b>	<b>(160)</b>	<b>-</b>	<b>-</b>	<b>30,096</b>
<b>Net Change in Fund Balances</b>	<b>(343,421)</b>	<b>(292,389)</b>	<b>(57,294)</b>	<b>-</b>	<b>(19,345)</b>	<b>(3,501,465)</b>	<b>(4,213,914)</b>
<b>Fund Balance - Beginning</b>	<b>1,889,224</b>	<b>724,761</b>	<b>34,414</b>	<b>-</b>	<b>149,098</b>	<b>4,723,232</b>	<b>7,520,729</b>
<b>Fund Balance - Ending</b>	<b>\$ 1,545,803</b>	<b>\$ 432,372</b>	<b>\$ (22,880)</b>	<b>\$ -</b>	<b>\$ 129,753</b>	<b>\$ 1,221,767</b>	<b>\$ 3,306,815</b>

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, 2018

---

Net Change in Fund Balances - Total Governmental Funds	\$ (4,213,914)
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 capital outlay (\$3,494,805) exceeded depreciation (\$351,850) in the current period.	3,142,955
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."	21,356
The issuance of long-term debt is another financing source in the fund statements but an increase in long-term liabilities on the government-wide statements.	(55,071)
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 \$0, payments of early retirement were \$5,000.	5,000
Governmental funds report the effect of premiums and discounts when the debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities. This is the amount amortized in the current period.	13,557
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	660,329
Revenues and reductions of expenses related to pensions reported in the statement of activities do not provide current financial resources and, therefore, are not reported in the funds.	540,011
Change in Net Position of Governmental Activities	<u style="border-bottom: 3px double black;">\$ 114,223</u>

Groton Area School District 06-6  
Statement of Net Position – Proprietary Funds  
June 30, 2018

	Enterprise Funds		
	Food Service Fund	Other	Total
<b>Assets</b>			
<b>Current Assets</b>			
101 Cash and cash equivalents	\$ 16,903	\$ 31,226	\$ 48,129
120 Accounts receivable	-	6,410	6,410
170 Inventory of supplies	3,267	-	3,267
171 Inventory of stores purchased for resale	5,990	-	5,990
172 Inventory of donated food	8,026	-	8,026
Total current assets	<u>34,186</u>	<u>37,636</u>	<u>71,822</u>
<b>Noncurrent Assets</b>			
196 Net pension asset	295	134	429
200 Capital assets:			
204 Machinery and equipment - local funds	124,941	-	124,941
Less accumulated depreciation	<u>(108,149)</u>	<u>-</u>	<u>(108,149)</u>
Total noncurrent assets	<u>17,087</u>	<u>134</u>	<u>17,221</u>
<b>Deferred Outflows of Resources</b>			
252 Pension related deferrred outflows	<u>31,766</u>	<u>14,461</u>	<u>46,227</u>
Total assets and deferred outflows of resources	<u>\$ 83,039</u>	<u>\$ 52,231</u>	<u>\$ 135,270</u>
<b>Liabilities, Deferred Inflows, and Net Position</b>			
<b>Current Liabilities</b>			
474 Unearned revenue	<u>\$ 14,723</u>	<u>\$ 2,290</u>	<u>\$ 17,013</u>
Total current liabilities	<u>14,723</u>	<u>2,290</u>	<u>17,013</u>
<b>Deffered Inflows of Resources</b>			
554 Pension related deferred inflows	<u>5,692</u>	<u>2,591</u>	<u>8,283</u>
<b>Net Position</b>			
706 Net investment in capital assets	16,792	-	16,792
707.2 SDRS pension benefits	26,369	12,004	38,373
708 Unrestricted net position	<u>19,463</u>	<u>35,346</u>	<u>54,809</u>
Total net position	<u>62,624</u>	<u>47,350</u>	<u>109,974</u>
Total liabilities, deferred inflows, and net position	<u>\$ 83,039</u>	<u>\$ 52,231</u>	<u>\$ 135,270</u>

Groton Area School District 06-6  
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds  
Year Ended June 30, 2018

	Enterprise Funds		
	Food Service Fund	Other	Total
Operating Revenue			
Tuition and fees			
1310 Student tuition	\$ -	\$ 13,300	\$ 13,300
1980 Parent tuition	-	60,687	60,687
Sales			
1610 To pupils	139,547	-	139,547
1620 To adults	3,564	-	3,564
1660 Other	6,360	-	6,360
Pension revenue	-	-	-
Total operating revenue	<u>149,471</u>	<u>73,987</u>	<u>223,458</u>
Operating Expenses			
100 Salaries	89,652	49,491	139,143
200 Employee benefits	21,054	9,674	30,728
300 Purchased services	9,626	2,817	12,443
400 Supplies	11,687	13,777	25,464
461 Cost of sales - purchased food	101,130	-	101,130
462 Cost of sales - donated food	9,958	-	9,958
910 Depreciation - local funds	4,920	-	4,920
Total operating expenses	<u>248,027</u>	<u>75,759</u>	<u>323,786</u>
Operating Loss	<u>(98,556)</u>	<u>(1,772)</u>	<u>(100,328)</u>
Nonoperating Revenue			
Other local revenue			
1920 Contributions and donations	-	11,368	11,368
State sources			
3810 Cash reimbursements	826	-	826
Federal sources			
4810 Cash reimbursements	55,535	-	55,535
4820 Donated food	11,660	-	11,660
Total nonoperating revenue	<u>68,021</u>	<u>11,368</u>	<u>79,389</u>
Income (Loss) Before Transfers	<u>(30,535)</u>	<u>9,596</u>	<u>(20,939)</u>
Transfers In	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Change in Net Position	(5,535)	9,596	4,061
Net Position - Beginning	<u>68,159</u>	<u>37,754</u>	<u>105,913</u>
Net Position - Ending	<u>\$ 62,624</u>	<u>\$ 47,350</u>	<u>\$ 109,974</u>

Groton Area School District 06-6  
Statement of Cash Flows – Proprietary Funds  
Year Ended June 30, 2018

	Enterprise Funds		
	Food Service Fund	Other	Total
Cash Flows provided from (used for) Operating Activities			
Receipts from customers	\$ 151,514	\$ 71,335	\$ 222,849
Payments to suppliers	(127,893)	(16,594)	(144,487)
Payments to employees	(121,657)	(63,778)	(185,435)
Net Cash used for Operating Activities	<u>(98,036)</u>	<u>(9,037)</u>	<u>(107,073)</u>
Cash Flows from Noncapital Financing Activities			
Contributions and donations	-	11,368	11,368
Transfers in	25,000	-	25,000
Operating subsidies	56,361	-	56,361
Net Cash from Noncapital Financing Activities	<u>81,361</u>	<u>11,368</u>	<u>92,729</u>
Net Change in Cash and Cash Equivalents	(16,675)	2,331	(14,344)
Cash and Cash Equivalents, Beginning of Year	<u>33,578</u>	<u>28,895</u>	<u>62,473</u>
Cash and Cash Equivalents, End of Year	<u>\$ 16,903</u>	<u>\$ 31,226</u>	<u>\$ 48,129</u>
Reconciliation of Operating Loss to Net Cash from (used for) Operating Activities:			
Operating loss	\$ (98,556)	\$ (1,772)	\$ (100,328)
Adjustments to reconcile operating loss to net cash from (used for) operating activities:			
Depreciation expense	4,920	-	4,920
Non-cash inventory costs	9,958	-	9,958
Change in assets and liabilities:			
Accounts receivable	-	(1,409)	(1,409)
Inventories	(5,450)	-	(5,450)
Pension liability, asset, deferred inflows and deferred outflows	(10,951)	(4,613)	(15,564)
Unearned revenue	2,043	(1,243)	800
Net Cash used for Operating Activities	<u>\$ (98,036)</u>	<u>\$ (9,037)</u>	<u>\$ (107,073)</u>
Noncash Investing, Capital and Financing Activities			
Value of commodities received	\$ 11,660	\$ -	\$ 11,660

Groton Area School District 06-6  
 Statements of Fiduciary Net Position  
 June 30, 2018

	Private Purpose Trust Fund	Agency Fund
Assets		
Cash	\$ -	\$ 247,807
Investments	98,345	-
	\$ 98,345	\$ 247,807
Liabilities		
Amounts held for others	\$ -	\$ 247,807
Total liabilities	-	247,807
Net Position		
Net position held in trust for scholarships	98,345	-
Total net position	98,345	-
	\$ 98,345	\$ 247,807



Groton Area School District 06-6  
Statement of Changes in Fiduciary Net Position  
June 30, 2018

---

	Private Purpose Trust Fund
Additions	
Investment income	\$ 7,180
Total additions	<u>7,180</u>
Deductions	
Scholarships	2,500
Investments fees	<u>1,300</u>
Total deductions	<u>3,800</u>
Change in Net Position	3,380
Net Position - Beginning	<u>94,965</u>
Net Position - Ending	<u><u>\$ 98,345</u></u>

## **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 formation is the result of the consolidation of Groton School District 06-6 and Bristol School District No. 18-1, as approved by voters in the respective districts effective July 1, 2004. 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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District. The School District does not have any component units.

The School District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the 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 is displayed in three components, as applicable, net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

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

### **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 and deferred inflows of resources, 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 and deferred inflows of resources, 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, and Pension Fund 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.

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

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

Capital Projects Funds – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

The Elementary School Project Fund is the only capital projects 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 which are accrued at June 30, 2018 are due from the state government for \$138,232 and the counties for \$558,963.

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.

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

#### **Fund Financial Statements**

Noncurrent portions of long-term interfund receivables are reported as nonspendable fund balance to the extent that the proceeds from the collection of those receivables are not restricted, committed, or assigned. 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, 2018 balance of capital assets for governmental activities is all valued at original cost. The total June 30, 2018 balance of capital assets for business-type activities is 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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, financing leases, early retirement, and an assessment due to South Dakota School District Health Benefits Fund (SD SDBF).

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.

### **Program Revenues**

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

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

### **Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and are 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 and investment balances are considered to be cash equivalents for the purpose of the statements of cash flows. For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

### **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**

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 and grants
Special Education	Property taxes, grants and State aid
Pension	Property taxes

**Pensions**

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

**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 (asset) not included in pension revenue/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 revenue/expense report in the government-wide statement of net position.

### **Rounding**

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

## **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, 2018, 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 for custodial credit risk.

The actual bank balances at June 30, 2018 were as follows:

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 250,000
Uninsured, collateral jointly held by State's/School District's agent in the name of the State and the pledging financial institution	3,347,023
	<u>\$ 3,597,023</u>

The School District's carrying amount of deposits at June 30, 2018	<u>\$ 3,583,644</u>
--	---------------------

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

Cash and cash equivalents	\$ 3,335,837
Add: Fiduciary fund cash (not included in government-wide statement of net position)	247,807
	<u>\$ 3,583,644</u>

### 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 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, 2018 is as follows:

Primary Government Governmental Activities	Balance 7/1/2017	Increases	Decreases	Balance 6/30/2018
Capital assets not being depreciated:				
Land	\$ 103,596	\$ -	\$ -	\$ 103,596
Construction in progress	2,754,896	3,472,510	-	6,227,406
Total capital assets not being depreciated	2,858,492	3,472,510	-	6,331,002
Capital assets being depreciated:				
Buildings	8,465,942	-	-	8,465,942
Improvements other than buildings	1,063,258	-	-	1,063,258
Machinery and equipment	1,878,664	22,295	22,000	1,878,959
Total capital assets being depreciated	11,407,864	22,295	22,000	11,408,159
Less accumulated depreciation for:				
Buildings	3,977,472	78,886	-	4,056,358
Improvements other than buildings	491,643	182,717	-	674,360
Machinery and equipment	1,389,767	90,247	22,000	1,458,014
Total accumulated depreciation	5,858,882	351,850 **	22,000	6,188,732
Total capital assets being depreciated, net	5,548,982	(329,555)	-	5,219,427
Governmental activity capital assets, net	\$ 8,407,474	\$ 3,142,955	\$ -	\$ 11,550,429

\*\* Depreciation expense was charged to functions as follows:

Governmental activities:			
Instruction			\$ 49,450
Support services			251,132
Community services			991
Co-curricular activities			50,277
Total depreciation expense - governmental activities			\$ 351,850

Proprietary Fund	Balance 7/1/2017	Increases	Decreases	Balance 6/30/2018
Capital assets being depreciated:				
Machinery and equipment	\$ 124,941	\$ -	\$ -	\$ 124,941
Total capital assets being depreciated	124,941	-	-	124,941
Less accumulated depreciation for:				
Machinery and equipment	103,229	4,920 **	-	108,149
Total accumulated depreciation	103,229	4,920	-	108,149
Total capital assets being depreciated, net	21,712	(4,920)	-	16,792
Proprietary fund activities capital assets, net	\$ 21,712	\$ (4,920)	\$ -	\$ 16,792

\*\* Depreciation expense was charged to functions as follows:

Proprietary fund activities:			
Food services			\$ 4,920
Total depreciation expense - proprietary fund activities			\$ 4,920

As of June 30, 2018, the School District has committed approximately \$7,500,000 for the elementary school renovation project, of which \$6,227,405 in payments had been made or accrued as accounts payable at year-end. The project is funded by capital outlay certificates issued in the year ended June 30, 2017.

#### Note 4 - Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2018 is as follows:

Governmental Activities	7/1/2017	Increase	Decrease	6/30/2018	Due In One Year
General obligation	\$ 9,265,000	\$ -	\$ (530,000)	\$ 8,735,000	\$ 680,000
Financing (capital acquisition) leases	63,581	55,071	(61,031)	57,621	38,905
SD SDBF assessment	307,000	-	(69,298)	237,702	81,912
Unamortized premium	263,981	-	(13,557)	250,424	13,557
Early retirement payable (See Note 5)	10,000	-	(5,000)	5,000	5,000
	<u>\$ 9,909,562</u>	<u>\$ 55,071</u>	<u>\$ (678,886)</u>	<u>\$ 9,285,747</u>	<u>\$ 819,374</u>

#### Primary Government

##### Governmental Activities

Debt payable at June 30, 2018 is comprised of the following:

General Obligation Debt		
Series 2016 General Obligation Bonds, matures December 2020, with interest rates varying from 1.00%-2.00% for the life of the loan, paid by the Bond Redemption Fund.	\$ 615,000	
Series 2016 General Obligation Certificates, matures December 2036, with interest rates varying from 2.00%-4.00% for the life of the loan, paid by the Capital Outlay Fund.	8,120,000	
Financing Leases		
Choice Financial, laptops, matures July 2018, 3.04% interest, annual payments of \$18,488, paid by the Capital Outlay Fund.	17,943	
Choice Financial, laptops, matures August 2019, 2.95% interest, annual payments of \$19,266, paid by the Capital Outlay Fund.	36,894	
Marco, Inc., copiers, matures October 2018, 1.799% interest, monthly payments of \$699, paid by the Capital Outlay Fund.	2,784	
Early Retirement		
Requires annual payments of not more than \$5,000 from the general fund, final payment in fiscal year 2019. (See Note 5)	5,000	
Plus unamortized premiums	<u>250,424</u>	
	<u>\$ 9,048,045</u>	

The SD SDBF assessment consists of \$307,000 assessed to the School District in 2016. The School Board decided to pay the assessment in four annual installment payments from October 2017 through October 2020. As of June 30, 2018, the remaining balance of the assessment is \$237,702.

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

Principal	\$ 147,811
Interest	6,284
	\$ 154,095

The annual debt service requirements to maturity for all debt outstanding as of June 30, 2018 are as follows:

Year Ending June 30,	G.O. Bonds Payable		Financing (Capital Acquisition Leases)		Early Retirement	SD SDBF Assessment	Total	
	Principal	Interest	Principal	Interest	Principal	Principal	Principal	Interest
2019	\$ 680,000	\$ 253,603	\$ 38,905	\$ 1,643	\$ 5,000	\$ 81,912	\$ 805,817	\$ 255,246
2020	685,000	240,773	18,716	552	-	77,310	781,026	241,325
2021	700,000	227,486	-	-	-	78,480	778,480	227,486
2022	510,000	215,950	-	-	-	-	510,000	215,950
2023	520,000	205,650	-	-	-	-	520,000	205,650
2024-2028	1,700,000	885,575	-	-	-	-	1,700,000	885,575
2029-2033	2,020,000	554,419	-	-	-	-	2,020,000	554,419
2034-2038	1,920,000	134,556	-	-	-	-	1,920,000	134,556
	\$ 8,735,000	\$ 2,718,012	\$ 57,621	\$ 2,195	\$ 5,000	\$ 237,702	\$ 9,035,323	\$ 2,720,207

Included in the Marco, Inc. lease agreement is a servicing agreement for the copiers and printers at the School District. The total monthly payment for the servicing portion of the lease is \$1,662 at the end of 2018 with a 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
2019	\$ 6,883

**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 two different options: \$5,000 paid directly to retiree over 4 years or \$5,000 paid to a tax free investment plan for 4 years. 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. Employees hired after July 2015 will no longer be eligible for early retirement provisions. 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 2018 fiscal year, there were no new employees approved to receive the benefit.

## **Note 6 - Fair Value**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the School has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The School District invests in mutual funds. The mutual funds are valued on a recurring basis based on readily determinable fair values based on daily redemption values and are classified within Level 1.

## **Note 7 - 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, 2018, the School District managed its risks as follows:

### **Employee Health Insurance**

The School District joined the South Dakota School District Health Benefits Fund (SD SDBF). 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 \$1,500 to \$2,500 deductible per person up to \$3,000 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.



During fiscal year 2017 the South Dakota District Health Benefits Fund issued a fund-wide assessment to all of the districts participating in the Fund to make up a deficit net position. The amount assessed to the School District was \$307,000, which was payable in lump sum or by payment plan. The School District decided to pay the assessment in 4 annual installments with the first payment made during 2018. At June 30, 2018, the South Dakota School District Health Benefits fund has a positive net position.

### **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 participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The objective of the fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the fund members. The School District may also be responsible for additional assessments in the event the pool is determined by its Board of Trustees to have inadequate reserves to satisfy current obligations or judgments.

Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,000,000 per individual per incident.

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

### **Unemployment Benefits**

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

The School District has assigned fund balance in the General Fund in the amount of \$32,052 for the payment of future unemployment benefits.

At June 30, 2018, no claims had been filed for unemployment benefits and no claims are anticipated for unemployment in the next fiscal year.

**Note 8 - 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	\$ 439,913
Debt Service	Law	131,814
Pension	Law	896
SDRS Pension Benefits	Law	1,381,346
		\$ 1,953,969

**Note 9 - 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 have equal participation are as follows:

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

The Warner 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, 2018, this joint venture had total fund equity of \$38,637 and no long-term debt.

The School District also participates in the North Central Special Education Co-op, a multi-district cooperative service unit (co-op) formed for the purpose of providing special education services to the member school districts. All members participate equally, members of the co-op are as follows:

Hitchcock-Tulare School District	Doland School District
Langford Area School District	Leola School District
Frederick Area School District	Groton Area School District
Northwestern Area School District	Warner School District
Edmunds Central School District	

The North Central Special Education Cooperative's governing board is composed of one representative from each member school district. The Board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

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

Financial statements are available by contacting the North Central Special Education Cooperative.

At June 30, 2018, the North Central Special Education Cooperative had fund equity of \$314,701 and no long-term debt.

## **Note 10 - Pension Plan**

### **Plan Information**

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 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, PO 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 3.73% for service prior to 2008 and 3.33% 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 1 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

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3<sup>rd</sup> quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3<sup>rd</sup> quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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, 2018, 2017 and 2016 were \$210,221, \$207,498 and \$195,222 respectively, equal to the required contributions each year.

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

At June 30, 2017, SDRS is 100.1% funded and, accordingly, has a net pension liability (asset). The proportionate shares of the components of the net pension liability (asset) of SDRS, for the School District as of the measurement period ending June 30, 2017 and reported by the school district as of June 30, 2018 are as follows:

Proportionate share of total pension liability	\$ 19,804,058
Less proportionate share of net position restricted for pension benefits	<u>19,819,505</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (15,447)</u></u>

At June 30, 2018, the School District reported a liability (asset) of (\$15,447) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017 and the total pension liability (asset) used to calculate the net pension liability (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, 2017, the School District’s proportion was 0.17021160%, which is a decrease of -0.0008982% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized a reduction of pension expense of (\$345,359). At June 30, 2017, 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	\$ 247,501	\$ -
Changes in assumption	1,199,354	-
Net difference between projected and actual earnings on pension plan investments	-	296,982
Changes in proportion and difference between School District contributions and proportionate share of contributions	6,988	1,182
School District contributions subsequent to the measurement date	210,221	-
	\$ 1,664,064	\$ 298,164

There is \$210,221 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:	Amount
2019	\$ 315,223
2020	525,170
2021	385,488
2022	(70,202)
	\$ 1,155,679

### Actuarial Assumptions

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

Inflation	2.25%
Salary increases	Graded by years of service, from 6.50% at entry to 3.00%
Discount Rate	6.50% net of plan investment expense

Mortality rates were based on 97% of the RP-2017 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scaled MP-2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
	100.0%	

### Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

### Sensitivity of Asset to Changes in the Discount Rate

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50% as well as what the School's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 2,829,093	\$ (15,447)	\$ (2,331,827)

**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 - Interfund Transactions**

During 2018, the School District made the following transfers:

- The Capital Outlay Fund transferred \$275,000 to the General Fund as allowed by SDCL 13-16-6 to cover certain operating expenses.
- The Pension Fund transferred \$160 to the General Fund to help cover costs on pension expenses.
- The General Fund transferred \$25,000 to the Food Service fund to help cover costs on food service expenses.

**Note 12 – Deficit Fund Balances/Net Position of Individual Funds**

As of June 30, 2018, the following individual funds had deficit fund balances/net position in the amounts shown:

Special Education	(17,729)
-------------------	----------

The Governing Board plans to address this deficit through increased tax receipts and transfers from other funds.



Required Supplementary Information  
June 30, 2018

# Groton Area School District 06-6



Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – General Fund  
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 3,149,847	\$ 3,149,847	\$ 2,944,826	\$ (205,021)
1120 Prior year's ad valorem taxes	10,000	10,000	8,546	(1,454)
1140 Gross receipts taxes	565,000	565,000	697,196	132,196
1190 Penalties and interest on taxes	5,700	5,700	5,433	(267)
1300 Tuition and fees:				
1360 Regular day school transportation fees	900	900	630	(270)
1500 Earnings on investments and deposits	6,000	6,000	8,760	2,760
1700 Cocurricular activities:				
1710 Admissions	44,000	44,000	43,482	(518)
1740 Rentals	2,000	2,000	2,940	940
1790 Other pupil activity income	131,600	131,600	137,035	5,435
1900 Other revenue from local sources:				
1910 Rentals	1,400	1,400	3,250	1,850
1920 Contributions and donations	4,000	4,000	6,172	2,172
1970 Charges for services	6,000	6,000	6,989	989
1990 Other	17,000	17,000	23,366	6,366
2000 Revenue from intermediate sources				
2100 County sources:				
2110 County apportionment	44,000	44,000	44,427	427
2200 Revenue in lieu of taxes	200	200	263	63
3000 Revenue from State sources				
3100 Grants-in-aid:				
3110 Unrestricted grants-in-aid	321,103	321,103	323,799	2,696
3900 Other State revenue	650	650	1,488	838
4000 Revenue from Federal sources:				
4100 Grants-in-aid:				
4130 Unrestricted grants-in-aid received from Federal government through an intermediate source	5,000	5,000	6,455	1,455
4140 Restricted grants-in-aid received directly from Federal government	17,217	17,217	17,217	-
4150-4199 Restricted grants-in-aid received from Federal government through the State	107,956	107,956	107,956	-
4900 Other Federal revenue	900	900	-	(900)
Total revenues	<u>4,440,473</u>	<u>4,440,473</u>	<u>4,390,230</u>	<u>(50,243)</u>
<b>Expenditures</b>				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	1,091,220	1,091,220	1,076,602	14,618
1111 Middle school/junior high	481,017	481,017	474,926	6,091
1130 High school	1,034,458	1,034,458	990,280	44,178
1140 Preschool services	52,537	52,537	50,034	2,503
1190 Other regular programs	1,500	1,500	1,500	-

Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – General Fund  
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
1200 Special programs:				
1210 Gifted and talented	6,215	6,215	3,703	2,512
1230 At-risk youth	51,642	51,642	42,505	9,137
1250 Culturally different	22,153	22,153	21,191	962
1270 Educationally deprived	135,799	135,999	135,916	83
2000 Support services				
2100 Pupils:				
2120 Guidance	141,851	141,851	134,931	6,920
2130 Health	40,918	40,918	40,456	462
2200 Support services - instructional staff:				
2210 Improvement of instruction	24,543	24,543	19,418	5,125
2220 Educational media	143,652	143,652	128,425	15,227
2300 Support services - general administration:				
2310 Board of education	137,521	138,921	127,159	11,762
2320 Executive administration	135,161	135,161	131,477	3,684
2400 Support services - school administration:				
2410 Office of the principal	292,181	292,181	281,072	11,109
2490 Other	1,250	1,250	751	499
2500 Support services - business:				
2520 Fiscal services	184,607	184,607	175,628	8,979
2530 Facilities acquisition and construction	5,000	5,000	-	5,000
2540 Operation and maintenance of plant	710,011	710,011	645,796	64,215
2550 Pupil transportation	332,705	332,705	289,753	42,952
4000 Nonprogrammed charges				
4500 Early retirement payments	9,383	9,383	5,383	4,000
6000 Cocurricular activities				
6900 Combined activities	236,984	236,984	206,930	30,054
7000 Contingencies	50,000	50,000	-	50,000
Amount transferred	-	(1,600)	-	(1,600)
Total expenditures	<u>5,322,308</u>	<u>5,322,308</u>	<u>4,983,836</u>	<u>338,472</u>
Excess of Revenue over (under) Expenditures	<u>(881,835)</u>	<u>(881,835)</u>	<u>(593,606)</u>	<u>288,229</u>
Other Financing Sources				
5510 Transfers in	250,000	275,000	275,160	160
8110 Transfer out	-	(25,000)	(25,000)	-
5130 Sale of surplus property	50	50	25	(25)
Total other financing sources	<u>250,050</u>	<u>250,050</u>	<u>250,185</u>	<u>135</u>
Net Change in Fund Balances	(631,785)	(631,785)	(343,421)	288,364
Fund Balance - Beginning	<u>1,889,224</u>	<u>1,889,224</u>	<u>1,889,224</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,257,439</u>	<u>\$ 1,257,439</u>	<u>\$ 1,545,803</u>	<u>\$ 288,364</u>

Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund  
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 1,254,300	\$ 1,254,300	\$ 1,114,019	\$ (140,281)
1120 Prior year's ad valorem taxes	3,000	3,000	2,168	(832)
1190 Penalties and interest on taxes	1,600	1,600	1,328	(272)
1900 Other revenue from local sources:				
1920 Contributions and donations	-	-	315	315
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	200	200	136	(64)
4000 Revenue from Federal sources				
4900 Other Federal revenue	23,651	23,651	18,935	(4,716)
	<u>1,282,751</u>	<u>1,282,751</u>	<u>1,136,901</u>	<u>(145,850)</u>
Total revenues				
<b>Expenditures</b>				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	30,500	30,500	73,243	(42,743)
1120 Junior high/middle school	21,725	21,725	19,286	2,439
1130 High school	53,025	53,025	46,068	6,957
1140 Preschool services	350	350	23	327
1190 Other regular programs	6,000	6,000	-	6,000
1200 Special programs:				
1220 Programs for special education	2,400	4,250	4,086	164
1230 At-risk youth	400	400	376	24
1250 Culturally different	50	50	30	20
2000 Support services				
2100 Pupils:				
2120 Guidance	175	175	145	30
2130 Health	1,400	1,400	1,331	69
2150 Speech pathology	325	325	214	111
2200 Support services - instructional staff:				
2220 Educational media	136,180	122,380	75,587	46,793
2300 Support services - general administration:				
2320 Executive administration	375	375	375	-
2400 Support services - school administration:				
2410 Office of the principal	2,300	2,300	1,085	1,215
2500 Support services - business:				
2520 Fiscal services	250	250	-	250
2530 Facilities acquisition and construction	81,500	81,500	72,812	8,688
2540 Operation and maintenance of plant	31,300	32,550	32,526	24
2550 Pupil transportation	41,000	41,000	40,056	944
5000 Debt services	806,125	808,325	808,225	100
6000 Cocurricular activities				
6900 Combined activities	20,800	29,300	33,893	(4,593)
	<u>1,236,180</u>	<u>1,236,180</u>	<u>1,209,361</u>	<u>26,819</u>
Total expenditures				

Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund  
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Excess of Revenue over (under) Expenditures	46,571	46,571	(72,460)	(119,031)
Other Financing Sources (Uses)				
8110 Transfers out	(250,000)	(275,000)	(275,000)	-
5120 General long-term debt issued	-	-	55,071	(55,071)
Total other financing sources	(250,000)	(275,000)	(219,929)	(55,071)
Net Change in Fund Balances	(203,429)	(228,429)	(292,389)	(174,102)
Fund Balance - Beginning	724,761	724,761	724,761	-
Fund Balance - Ending	\$ 521,332	\$ 496,332	\$ 432,372	\$ (174,102)

Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund  
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 852,500	\$ 852,500	\$ 768,380	\$ (84,120)
1120 Prior year's ad valorem taxes	1,700	1,700	1,605	(95)
1190 Penalties and interest on taxes	1,000	1,000	1,016	16
1900 Other revenue from local sources:				
1970 Charges for services	10,800	10,800	13,433	2,633
1990 Other	-	-	2,614	2,614
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	50	50	109	59
3000 Revenue from State sources				
3900 Other State revenue	5,000	5,000	4,961	(39)
Total revenues	<u>871,050</u>	<u>871,050</u>	<u>792,118</u>	<u>(78,932)</u>
<b>Expenditures</b>				
1000 Instruction				
1200 Special programs:				
1220 Programs for special education	731,438	729,338	676,732	52,606
2000 Support services				
2100 Pupils:				
2130 Health	3,000	3,000	-	3,000
2140 Psychological	14,187	14,187	14,187	-
2150 Speech pathology	34,509	34,509	33,921	588
2170 Student therapy services	98,000	98,000	90,976	7,024
2300 Support services - general administration:				
2310 Board of education	500	500	-	500
2700 Support services - special education:				
2710 Administrative costs	15,343	15,343	14,292	1,051
2730 Transportation costs	21,171	22,171	8,021	14,150
2740 Other health impairments	5,830	6,930	7,049	(119)
2750 Other special education costs	4,548	4,548	4,234	314
Total expenditures	<u>928,526</u>	<u>928,526</u>	<u>849,412</u>	<u>79,114</u>
Net Change in Fund Balances	(57,476)	(57,476)	(57,294)	182
Fund Balance - Beginning	<u>34,414</u>	<u>34,414</u>	<u>34,414</u>	<u>-</u>
Fund Balance - Ending	<u>\$ (23,062)</u>	<u>\$ (23,062)</u>	<u>\$ (22,880)</u>	<u>\$ 182</u>

Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – Pension Fund  
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1120 Prior year's ad valorem taxes	\$ 125	\$ 125	\$ 119	\$ (6)
1190 Penalties and interest on taxes	25	25	41	16
Total revenues	<u>150</u>	<u>150</u>	<u>160</u>	<u>10</u>
Other Financing Sources				
8110 Transfers out	<u>-</u>	<u>-</u>	<u>(160)</u>	<u>(160)</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>(160)</u>	<u>(160)</u>
Net Change in Fund Balances	150	150	-	(150)
Fund Balance - Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - Ending	<u><u>\$ 150</u></u>	<u><u>\$ 150</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (150)</u></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 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 Employer's Share of Net Pension Liability (Asset)  
Year Ended June 30, 2018

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Employer's Percentage of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</u>	<u>Employer's Covered Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)</u>
SDRS	6/30/2018	0.1702116%	\$ (15,447)	\$ 3,458,565	-0.4%	100.1%
SDRS	6/30/2017	0.1711098%	577,992	3,253,709	17.8%	96.89%
SDRS	6/30/2016	0.1706572%	(723,806)	3,115,729	-23.2%	104.1%
SDRS	6/30/2015	0.1739782%	(1,253,441)	3,042,404	-41.2%	107.3%

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

Note: The information disclosed for each fiscal year is reported as of the measurement date of the net pension liability (asset) which is June 30 of the preceding year.



Groton Area School District 06-6  
 Schedule of Employer's Contributions  
 Year Ended June 30, 2018

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered Payroll (d)</u>	<u>Contributions as a Percentage of Covered Payroll (b/d)</u>
SDRS	6/30/2018	\$ 210,221	\$ 210,221	\$ -	\$ 3,503,675	6.0%
SDRS	6/30/2017	207,498	207,498	-	3,458,565	6.0%
SDRS	6/30/2016	195,222	195,222	-	3,253,709	6.0%
SDRS	6/30/2015	186,943	186,943	-	3,115,729	6.0%

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

**Changes in Benefit Terms:**

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition exists this year and limits the maximum COLA payable in 2018 to 1.89%.

Legislation was also enacted in 2017 to:

- Modify the definition of Compensation to clarify included and excluded items;
- Expand the caps on increases in Compensation considered in Final Average Compensation;
- Extend the Final Average Compensation period from the current three years to five years for Foundation Members after a phase-in period; and
- Limit Compensation to the Internal Revenue Code Section 401(a)(17) limits for all Members, regardless of date of entry to SDRS.

**Changes of Assumptions:**

As a result of an experience analysis covering the period from July 1, 2011 to June 30, 2016, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for the June 30, 2017 Actuarial Valuation. The changes to economic assumptions were very significant and included reducing the inflation assumption to 2.25%, reducing the investment return assumption to 6.5%, and reducing the payroll growth assumption to 3.00%. The demographic assumption changes were less impactful. Among those changes were new mortality assumptions, updated retirement, termination and disability rates and updated salary increase assumptions.

The Actuarial Asset Valuation Method was changed to the Fair Value of Assets. In addition, the Funding Method was changed from the Frozen Entry Age Actuarial Cost Method to the Entry Age Actuarial Cost Method, which was in use for GASB Statement Nos. 67 and 68 purposes.



**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, 2018, 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 December 21, 2018.

**Internal Control over Financial Reporting**

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

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 have not been identified. However, as described in the accompanying schedule of findings, 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 deficiency described in the accompanying schedule of findings as item 2018-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 Finding**

Groton Area School District 06-6's response to the finding identified in our audit is described in the accompanying schedule of findings. 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.



Aberdeen, South Dakota  
December 21, 2018

## **Current Audit Findings and Recommendations**

### **Finding 2018-A Preparation of Financial Statements and Footnotes, and Material Proposed Adjustments to the Financial Statements**

*Criteria:* The School District's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, 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.

*Condition:* Groton Area School District 06-6 requested the external auditors to assist in the preparation of the financial statements and related footnotes for the year ended June 30, 2018. 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.

*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.

*Views of Responsible Officials:* Management agrees with the finding.