

HAAKON SCHOOL DISTRICT NO. 27-1

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS, AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2018

CASEY  **PETERSON**
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

Haakon School District No. 27-1
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June 30, 2018

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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*

School Board
Haakon School District No. 27-1
Haakon County, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Haakon School District No. 27-1, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Haakon School District No. 27-1's basic financial statements and have issued our report thereon dated September 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Haakon School District No. 27-1'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 Haakon School District No. 27-1 internal control. Accordingly, we do not express an opinion on the effectiveness of Haakon School District No. 27-1's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and management's responses that we consider to be a material weakness. The item being reported as a material weakness is 2018-001.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Haakon School District No. 27-1'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*.

Haakon School District No. 27-1's Response to Findings

Haakon School District No. 27-1's response to the findings identified in our audit is described in the accompanying schedule of findings and management's responses. Haakon School District No. 27-1'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 a matter of public record and its distribution is not limited.



Casey Peterson, Ltd.

Rapid City, South Dakota
September 19, 2018

Haakon School District No. 27-1
Schedule of Findings and Management's Responses (Unaudited)
June 30, 2018

2018-001 *Condition:* The District has limited staff size, causing a concentration of responsibilities within the following processes/cycles: reconciliation of accounts, the posting of general journal entries, the recognition of revenues, and the preparation of the financial statements.

Criteria: A strong system of internal controls over accounting functions allows for a segregation of responsibilities among various personnel including oversight of functions assigned.

Cause: The District has limited staff in the finance function.

Effect: There is a possibility of fraud or errors occurring and not being detected or corrected. Material audit adjustments were required related to year-end reporting for long-term debt, property and equipment, construction in progress, property taxes receivable, deferred property tax inflows, grants and capital credits receivable, long-term and short-term liabilities.

Auditor's Recommendation: Reconciliations of accounts and journal entries prepared by the Business Manager should be reviewed by the Superintendent or a School Board member with sufficient accounting expertise. Management and those charged with governance should evaluate the finance processes and cycles and determine whether the risks related to a concentration of responsibilities are outweighed by the costs of hiring additional staff.

Management's Response: The District will implement suggestions to improve internal controls whenever cost effective. Due to the size of the District, it is not cost effective to hire additional finance office staff. The District will improve oversight procedures by the Superintendent and Board where possible to help mitigate this risk.

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Independent Auditor's Report

School Board
Haakon School District No. 27-1
Haakon County, 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 Haakon School District No. 27-1, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Haakon School District No. 27-1, 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 Management's Discussion and Analysis, budgetary comparison information, Schedule of Net Pension Liability (Asset), and Schedule of Pension Contributions on pages 7 - 14, 54 - 59, 60, and 61, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Haakon School District No. 27-1's basic financial statements. The list of school district officials is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The list of school district officials has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2018, on our consideration of Haakon School District No. 27-1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Haakon School District No. 27-1's internal control over financial reporting and compliance.



Casey Peterson, Ltd.

Rapid City, South Dakota
September 19, 2018

Haakon School District No. 27-1
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2018

This section of Haakon County School District No. 27-1's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the 17-18 FY, the District's revenues generated from taxes and other revenues of the governmental and business-type programs were \$495,370 more than the \$3,470,662 governmental and business-type program expenses.
- The General Fund reported a \$429,810 decrease in fund balance in FY 17-18. The Capital Outlay Fund reported a decrease of \$218,146.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The Statement of Net Position and the Statement of Activities are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities that the District operates like businesses. The only proprietary fund operated by the District is the Food Service Fund.
 - Fiduciary fund statements provide information about the financial relationships - like scholarships for graduating students - in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District's government covered and the types of information contained. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

See independent auditor's report.

**Haakon School District No. 27-1
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2018**

Figure A-1

Major Features of Haakon School District's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District government (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the District operates similar to private businesses, the food service operation.	Instances in which the District is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of Fiduciary Net Position *Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term, and deferred inflows and outflows of resources	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included, and deferred inflows and outflows of resources	All assets and liabilities, both financial and capital, and short-term and long-term, and deferred inflows and outflows of resources	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

See independent auditor's report.

Haakon School District No. 27-1
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2018

The two government-wide statements report the District's net position and how it has changed. Net position - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the District are reported in two categories:

- **Governmental Activities** - This category includes the District's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), interest expense on long-term debt, and extracurricular activities (sports, debate, music, etc.). Property taxes, state grants, federal grants and interest earnings finance most of these activities.
- **Business-type Activities** - The District charges a fee to students to help cover the costs of providing hot lunch services to all students. The Food Service Fund is the only business-type activity of the District.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds - not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds, such as the Capital Outlay Fund and the Special Education Fund.
- The School Board establishes other funds to control and manage money for particular purposes (like the Scholarship Trust).

The District has three kinds of funds:

- **Governmental Funds** - Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.
- **Proprietary Funds** - Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short-term and long-term financial information. The Food Service Enterprise Fund is the only proprietary fund maintained by the District.
- **Fiduciary Funds** - The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

See independent auditor's report.

**Haakon School District No. 27-1
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position increased as follows:

Table A-1
HAAKON SCHOOL DISTRICT 27-1
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total		Total
	2018	2017	2018	2017	2018	2017	Percentage Change
Current and Other Assets	\$ 6,946,607	\$ 14,931,828	\$ 15,284	\$ 23,113	\$ 6,961,891	\$ 14,954,941	-53.45%
Capital Assets (Net of Depreciation)	11,394,002	2,884,613	10,124	11,784	11,404,126	2,896,397	293.73%
Total Assets	<u>18,340,609</u>	<u>17,816,441</u>	<u>25,408</u>	<u>34,897</u>	<u>18,366,017</u>	<u>17,851,338</u>	2.88%
Pension Related Deferred Outflows	894,253	687,232	-	-	894,253	687,232	30.12%
Total Deferred Outflows of Resources	<u>894,253</u>	<u>687,232</u>	<u>-</u>	<u>-</u>	<u>894,253</u>	<u>687,232</u>	30.12%
Long-term Liabilities Outstanding	8,665,293	9,468,155	-	-	8,665,293	9,468,155	-8.48%
Other Liabilities	1,308,218	528,416	7,198	7,062	1,315,416	535,478	145.65%
Total Liabilities	<u>9,973,511</u>	<u>9,996,571</u>	<u>7,198</u>	<u>7,062</u>	<u>9,980,709</u>	<u>10,003,633</u>	-0.23%
Property Taxes Levied for Future Periods	1,116,403	1,055,484	-	-	1,116,403	1,055,484	5.77%
Pension-related Deferred Inflows	190,720	2,385	-	-	190,720	2,385	7896.65%
Total Deferred Inflows of Resources	<u>1,307,123</u>	<u>1,057,869</u>	<u>-</u>	<u>-</u>	<u>1,307,123</u>	<u>1,057,869</u>	23.56%
Net Investment in Capital Assets	2,736,172	1,978,856	10,124	11,784	2,746,296	1,990,640	37.96%
Restricted	4,423,889	12,366,993	-	-	4,423,889	12,366,993	-64.23%
Unrestricted	794,167	(6,896,616)	8,086	16,051	802,253	(6,880,565)	-111.66%
Total Net Position	<u>\$ 7,954,228</u>	<u>\$ 7,449,233</u>	<u>\$ 18,210</u>	<u>\$ 27,835</u>	<u>\$ 7,972,438</u>	<u>\$ 7,477,068</u>	6.63%
Beginning Net Position	<u>7,449,233</u>	<u>6,721,466</u>	<u>27,835</u>	<u>46,636</u>	<u>7,477,068</u>	<u>6,768,102</u>	
Increase (Decrease) in Net Position	<u>\$ 504,995</u>	<u>\$ 727,767</u>	<u>\$ (9,625)</u>	<u>\$ (18,801)</u>	<u>\$ 495,370</u>	<u>\$ 708,966</u>	
Percentage Change in Net Position	6.78%	10.83%	-34.58%	-40.31%	6.63%	10.48%	

The District paid off the Qualified Zone Academy Bonds and began paying down the bonds issued in FY16-17 decreasing long-term debt. Assets increased due construction of the new school building.

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components: the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of Series 2016 Bonds and compensated absences payable, have been reported in this manner on the Statement of Net Position. The difference between the District's assets and deferred outflows and liabilities and deferred inflows is its net position.

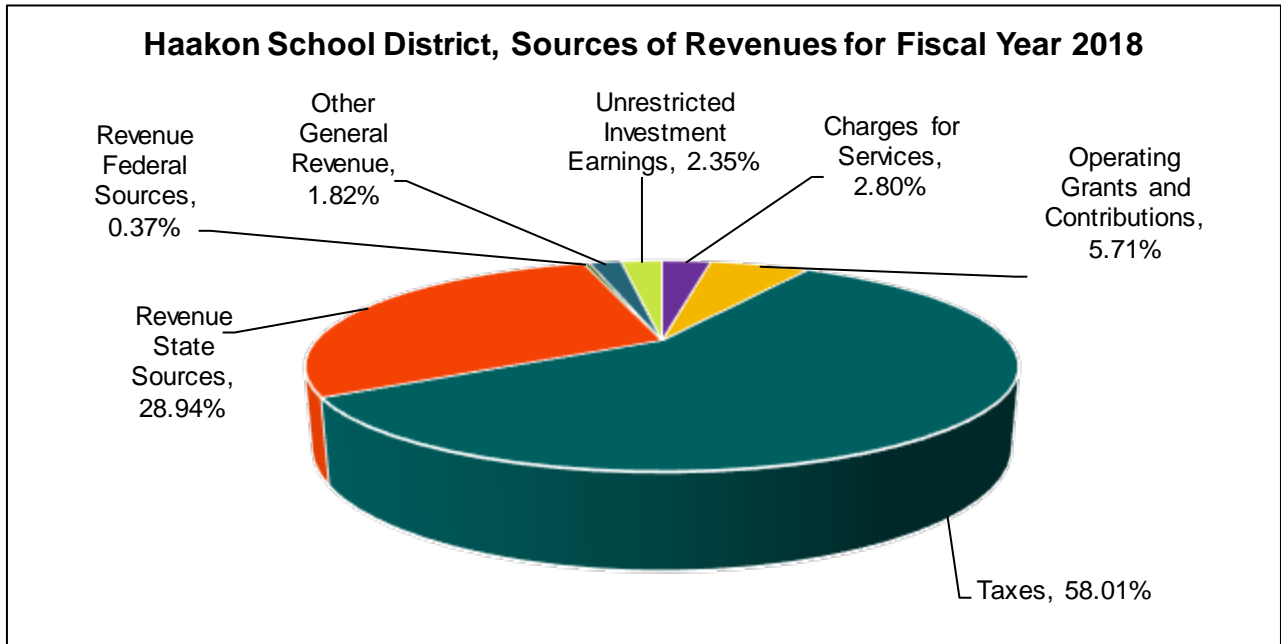
See independent auditor's report.

**Haakon School District No. 27-1
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2018**

Changes in Net Position

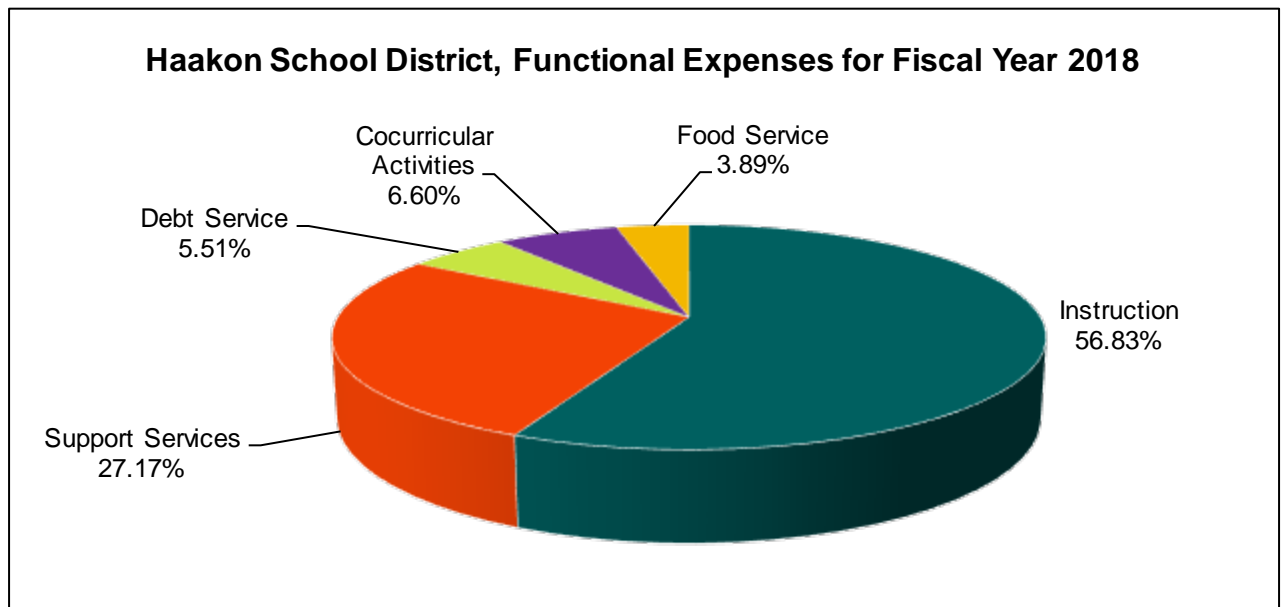
The District's revenues totaled \$3,966,032 (see Table A-2). Over half of the District's revenue comes from property and other taxes, while approximately 29% comes from state aid. (See Figure A-2).

Figure A-2



The total cost of all programs and services was \$3,470,662. The District's expenses cover a range of services encompassing instruction, support services, cocurricular activities, and food services (see Figure A-3).

Figure A-3



See independent auditor's report.

**Haakon School District No. 27-1
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2018**

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Table A-2 and the narrative that follows consider the operations of the governmental activities and the business-type activities of the District.

Table A-2
HAAKON SCHOOL DISTRICT 27-1
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total		Total
	2018	2017	2018	2017	2018	2017	Percentage Change
Revenues							
Program Revenues							
Charges for Services	\$ 29,895	\$ 29,807	\$ 81,034	\$ 76,272	\$ 110,929	\$ 106,079	4.57%
Operating Grants and Contributions	182,561	227,141	43,729	45,455	226,290	272,596	-16.99%
Capital Grants and Contributions	12,300	597,600	-	-	12,300	597,600	0.00%
General Revenues							
Taxes	2,300,289	2,535,097	-	-	2,300,289	2,535,097	-9.26%
Revenue State Sources	1,147,850	1,165,240	-	-	1,147,850	1,165,240	-1.49%
Revenue Federal Sources	15,052	10,492	-	-	15,052	10,492	43.46%
Other General Revenue	72,002	37,033	-	-	72,002	37,033	94.43%
Unrestricted Investment Earnings	93,102	63,159	-	-	93,102	63,159	47.41%
Loss on Disposal of Assets	(11,782)	(62,601)	-	-	(11,782)	(62,601)	-81.18%
Total Revenues	<u>3,841,269</u>	<u>4,602,968</u>	<u>124,763</u>	<u>121,727</u>	<u>3,966,032</u>	<u>4,724,695</u>	-16.06%
Expenses							
Instruction	1,972,665	1,879,135	-	-	1,972,665	1,879,135	4.98%
Support Services	943,090	1,500,142	-	-	943,090	1,500,142	-37.13%
Debt Service	191,382	274,213	-	-	191,382	274,213	-30.21%
Cocurricular Activities	229,137	221,711	-	-	229,137	221,711	3.35%
Food Service	-	-	134,388	140,528	134,388	140,528	-4.37%
Total Expenses	<u>3,336,274</u>	<u>3,875,201</u>	<u>134,388</u>	<u>140,528</u>	<u>3,470,662</u>	<u>4,015,729</u>	-13.57%
Increase (Decrease) in							
Net Position	504,995	727,767	(9,625)	(18,801)	495,370	708,966	30.13%
Beginning Net Position	<u>7,449,233</u>	<u>6,721,466</u>	<u>27,835</u>	<u>46,636</u>	<u>7,477,068</u>	<u>6,768,102</u>	10.48%
Ending Net Position	<u>\$ 7,954,228</u>	<u>\$ 7,449,233</u>	<u>\$ 18,210</u>	<u>\$ 27,835</u>	<u>\$ 7,972,438</u>	<u>\$ 7,477,068</u>	6.63%

GOVERNMENTAL ACTIVITIES

The governmental activities showed a decrease in revenues and expenses. The decrease in revenues was primarily a result of a decrease in state aid and property taxes.

BUSINESS-TYPE ACTIVITIES

Revenues of the District's business-type activities (Food Service Operation) were stable while expenses decreased in FY 17-18 as shown in Table A-2.

See independent auditor's report.

**Haakon School District No. 27-1
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The General Fund's fund balance dropped in the current year due a decrease in property tax revenue and an increase in expenses for instructional services. The Capital Outlay Fund's fund balance decreased due to lower revenues and transferring funds to the Capital Project Fund. The Pension Fund's fund balance did not have any significant changes. The Special Education Fund's fund balance decreased due to a decrease in property tax revenue and an increase in expenses on support services.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no significant changes to the General Fund budget this fiscal year overall. Some areas were increased only based on need.

CAPITAL ASSET ADMINISTRATION

Capital Assets increased for the District due to an increase in construction in progress for the construction of the new building.

**Table A-3
HAAKON SCHOOL DISTRICT 27-1
Capital Assets, Net of Depreciation**

	Governmental Activities		Business-Type Activities		Total Dollar Change	Total Percentage Change
	2018	2017	2018	2017	2017-2018	2017-2018
Land	\$ 26,020	\$ 26,020	\$ -	\$ -	\$ -	0.00%
Construction in Progress	9,301,035	792,857	-	-	8,508,178	1073.10%
Buildings	1,215,715	1,267,132	-	-	(51,417)	-4.06%
Improvements Other Than Buildings	26,274	31,138	-	-	(4,864)	-15.62%
Machinery and Equipment	824,958	767,466	10,124	11,784	55,832	7.27%
Total Capital Assets (Net)	\$ 11,394,002	\$ 2,884,613	\$ 10,124	\$ 11,784	\$ 8,507,729	1060.70%

Capital asset purchases during the year ended June 30, 2018 included a new scoreboard, score table and a new bus.

LONG-TERM DEBT

At year-end, the District had \$8,665,293 in bonds and other long-term obligations as shown on Table A-4 below.

**Table A-4
HAAKON SCHOOL DISTRICT 27-1
Outstanding Debt and Obligations**

	Governmental Activities		Business-Type Activities		Total Dollar Change	Total Percentage Change
	2018	2017	2018	2017	2017-2018	2017-2018
Qualified Zone Academy Bonds	\$ -	\$ 200,000	\$ -	\$ -	\$ (200,000)	-100.00%
Series 2016 Bond	8,510,000	8,840,000	-	-	(330,000)	-3.73%
Series 2016 Bond Premium	147,830	155,858	-	-	(8,028)	-5.15%
Compensated Absences	7,463	4,247	-	-	3,216	75.72%
Total Outstanding Debt and Obligations	\$ 8,665,293	\$ 9,200,105	\$ -	\$ -	\$ (534,812)	-5.81%

See independent auditor's report.

Haakon School District No. 27-1 Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2018

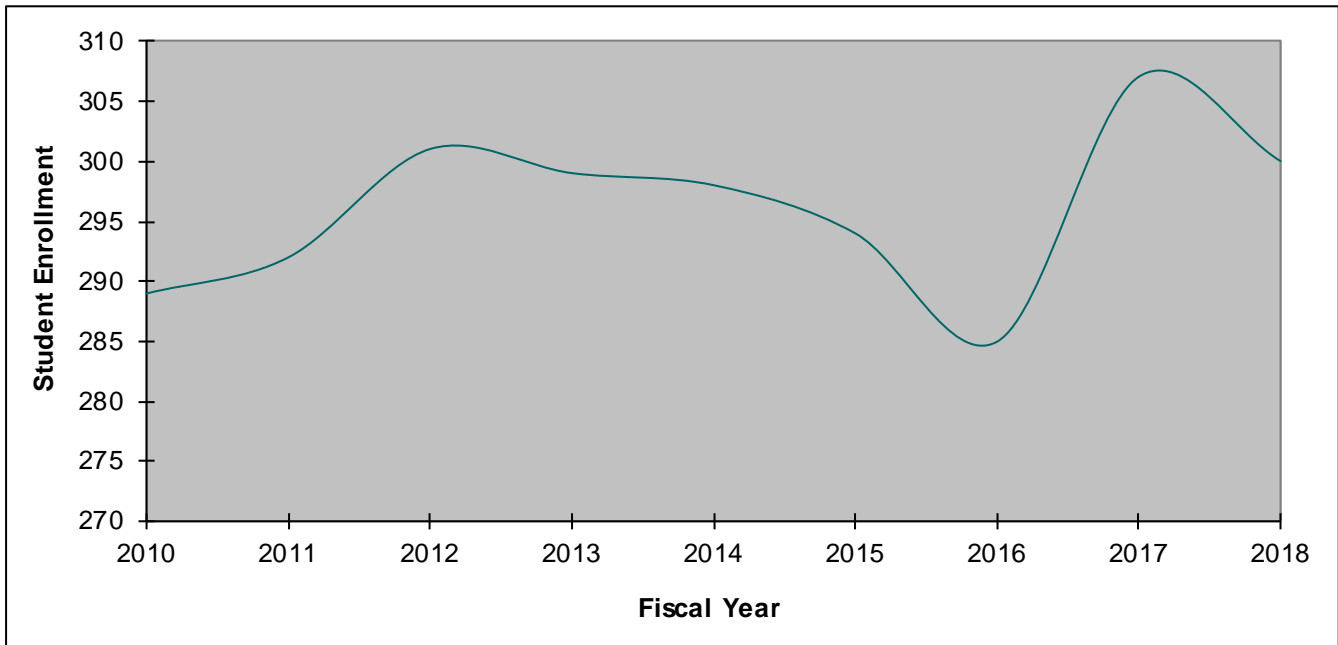
The District is liable for the accrued vacation leave payable to the superintendent, business manager and head custodian.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's current economic position has shown little change. Local revenues have ultimately remained steady, slightly increasing due to property values. No significant increases in revenue in this area are expected.

One of the primary sources of revenue of the District is based on a target teacher salary allocation received from the State of South Dakota. The state aid formula was modified beginning in FY17. The state aid formula aims for a target teacher salary of \$48,645.50 and establishes need based on that number along with enrollment. The average daily membership (ADM) has decreased this year from 310 to 302. The impact of this new formula on the stability of the District's revenues is not fully known. The State of South Dakota has implemented a new law that combines the pension levy and the General Fund. This is expected to reduce funding available to the District in future years. In addition, the Pension Fund will be required to be merged with the General Fund by FY2021. The Capital Outlay levy has also been modified to limit future growth in collections which may impair the District's ability to fund future capital projects.

The District's enrollment for the last nine years has been as follows:



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Haakon School District Business Office, PO Box 730, 330 Scottie Ave, Philip, SD 57567.

See independent auditor's report.

BASIC FINANCIAL STATEMENTS

Haakon School District No. 27-1
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 4,468,187	\$ 12,744	\$ 4,480,931
Certificates of Deposit	534,322	-	534,322
Taxes Receivable	970,080	-	970,080
Accounts Receivable	-	66	66
Due From Other Governments	184,562	-	184,562
Inventories	-	2,474	2,474
Capital Credits Receivable	92,448	-	92,448
Restricted Assets:			
Investments Restricted for Capital Projects	688,786	-	688,786
Net Pension Asset	8,222	-	8,222
	<u>6,946,607</u>	<u>15,284</u>	<u>6,961,891</u>
Capital Assets:			
Land	26,020	-	26,020
Buildings	4,613,144	-	4,613,144
Improvements	106,324	-	106,324
Equipment	1,133,849	40,317	1,174,166
Construction in Progress	9,301,035	-	9,301,035
Less: Accumulated Depreciation	<u>(3,786,370)</u>	<u>(30,193)</u>	<u>(3,816,563)</u>
Total Capital Assets, Net of Depreciation	<u>11,394,002</u>	<u>10,124</u>	<u>11,404,126</u>
TOTAL ASSETS	<u>18,340,609</u>	<u>25,408</u>	<u>18,366,017</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension-related Deferred Outflows	<u>894,253</u>	<u>-</u>	<u>894,253</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>894,253</u>	<u>-</u>	<u>894,253</u>

The accompanying notes are an integral part of this statement.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
LIABILITIES			
Accrued Expenses	1,308,218	2,615	1,310,833
Unearned Revenue	-	4,583	4,583
Long-term Liabilities:			
Due Within One Year	362,463	-	362,463
Due in More than One Year	<u>8,302,830</u>	<u>-</u>	<u>8,302,830</u>
TOTAL LIABILITIES	<u>9,973,511</u>	<u>7,198</u>	<u>9,980,709</u>
DEFERRED INFLOWS OF RESOURCES			
Property Taxes Levied for Future Periods	1,116,403	-	1,116,403
Pension-related Deferred Inflows	<u>190,720</u>	<u>-</u>	<u>190,720</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,307,123</u>	<u>-</u>	<u>1,307,123</u>
NET POSITION			
Net Investment in Capital Assets	2,736,172	10,124	2,746,296
Restricted for:			
Debt Repayment	187,015	-	187,015
Capital Outlay	2,656,087	-	2,656,087
Special Education	869,032	-	869,032
Proportionate Share of Net Pension Asset	711,755	-	711,755
Unrestricted	<u>794,167</u>	<u>8,086</u>	<u>802,253</u>
TOTAL NET POSITION	<u>\$ 7,954,228</u>	<u>\$ 18,210</u>	<u>\$ 7,972,438</u>

The accompanying notes are an integral part of this statement.

**Haakon School District No. 27-1
Statement of Activities
For the Year Ended June 30, 2018**

Functions/Programs	Expenses	Charges for Services
GOVERNMENTAL ACTIVITIES		
Instruction	\$ 1,972,665	\$ -
Support Services	943,090	2,842
Cocurricular Activities	229,137	27,053
Interest on Long-term Debt *	191,382	-
Total Governmental Activities	<u>3,336,274</u>	<u>29,895</u>
BUSINESS-TYPE ACTIVITIES		
Food Service	<u>134,388</u>	<u>81,034</u>
Total Primary Government	<u>\$ 3,470,662</u>	<u>\$ 110,929</u>

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

The accompanying notes are an integral part of this statement.

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
		Governmental Activities	Business-type Activities	Total
\$ 164,687	\$ -	\$ (1,807,978)	\$ -	\$ (1,807,978)
17,874	12,300	(910,074)	-	(910,074)
-	-	(202,084)	-	(202,084)
-	-	(191,382)	-	(191,382)
<u>182,561</u>	<u>12,300</u>	<u>(3,111,518)</u>	<u>-</u>	<u>(3,111,518)</u>
<u>43,729</u>	<u>-</u>	<u>-</u>	<u>(9,625)</u>	<u>(9,625)</u>
<u>\$ 226,290</u>	<u>\$ 12,300</u>	<u>-</u>	<u>(9,625)</u>	<u>(3,121,143)</u>
GENERAL REVENUES				
Taxes:				
Property Taxes		2,180,334	-	2,180,334
Gross Receipts Taxes		119,955	-	119,955
Revenue From State Sources:				
State Aid		1,147,850	-	1,147,850
Revenue From Federal Sources		15,052	-	15,052
Revenue From Intermediate Sources		12,840	-	12,840
Unrestricted Investment Earnings		93,102	-	93,102
Other General Revenues		59,162	-	59,162
Loss on Disposal of Assets		(11,782)	-	(11,782)
Total General Revenues		<u>3,616,513</u>	<u>-</u>	<u>3,616,513</u>
CHANGE IN NET POSITION		504,995	(9,625)	495,370
NET POSITION - BEGINNING		<u>7,449,233</u>	<u>27,835</u>	<u>7,477,068</u>
NET POSITION - ENDING		<u>\$ 7,954,228</u>	<u>\$ 18,210</u>	<u>\$ 7,972,438</u>

The accompanying notes are an integral part of this statement.

Haakon School District No. 27-1
Balance Sheet - Governmental Funds
June 30, 2018

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
ASSETS		
Cash and Cash Equivalents	\$ 1,123,862	\$ 1,800,503
Certificates of Deposit	-	534,322
Advance Payments	3,000	-
Taxes Receivable, Current	425,744	188,290
Taxes Receivable, Delinquent	2,564	1,137
Due From Other Governments	99,906	15,186
Capital Credits Receivable	92,448	-
Restricted Assets:		
Investments Restricted for Capital Projects	-	-
TOTAL ASSETS	<u><u>\$ 1,747,524</u></u>	<u><u>\$ 2,539,438</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Liabilities:		
Accounts Payable	\$ 19,447	\$ -
Contracts Payable	202,262	-
Payroll Deductions and Employer Matching Payable	40,619	-
Total Liabilities	<u>262,328</u>	<u>-</u>
Deferred Inflows of Resources:		
Property Taxes Levied for Future Periods	495,768	216,703
Delinquent Taxes Not Available	2,564	1,137
Capital Credits Redeemable in Future Periods	92,448	-
Total Deferred Inflows of Resources	<u>590,780</u>	<u>217,840</u>
Fund Balances:		
Restricted		
For Retirement of Debt	-	-
For Capital Outlay	-	2,321,598
For Special Education	-	-
Assigned for Pension	-	-
Unassigned	894,416	-
Total Fund Balances	<u>894,416</u>	<u>2,321,598</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ 1,747,524</u></u>	<u><u>\$ 2,539,438</u></u>

The accompanying notes are an integral part of this statement.

Special Education Fund	Pension Fund	Bond Redemption Fund	Capital Projects Fund	Total Governmental Funds
\$ 821,841	\$ 158,737	\$ 224,776	\$ 335,468	\$ 4,465,187
-	-	-	-	534,322
-	-	-	-	3,000
109,124	-	241,107	-	964,265
633	-	1,481	-	5,815
69,470	-	-	-	184,562
-	-	-	-	92,448
-	-	-	688,786	688,786
<u>\$ 1,001,068</u>	<u>\$ 158,737</u>	<u>\$ 467,364</u>	<u>\$ 1,024,254</u>	<u>\$ 6,938,385</u>
\$ 2,436	\$ -	\$ -	\$ 1,024,254	\$ 1,046,137
1,709	-	-	-	203,971
1,090	-	-	-	41,709
<u>5,235</u>	<u>-</u>	<u>-</u>	<u>1,024,254</u>	<u>1,291,817</u>
125,605	-	277,567	-	1,115,643
633	-	1,481	-	5,815
-	-	-	-	92,448
<u>126,238</u>	<u>-</u>	<u>279,048</u>	<u>-</u>	<u>1,213,906</u>
-	-	188,316	-	188,316
-	-	-	-	2,321,598
869,595	-	-	-	869,595
-	158,737	-	-	158,737
-	-	-	-	894,416
<u>869,595</u>	<u>158,737</u>	<u>188,316</u>	<u>-</u>	<u>4,432,662</u>
<u>\$ 1,001,068</u>	<u>\$ 158,737</u>	<u>\$ 467,364</u>	<u>\$ 1,024,254</u>	<u>\$ 6,938,385</u>

The accompanying notes are an integral part of this statement.

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Haakon School District No. 27-1
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Position
June 30, 2018

Total Fund Balances - Governmental Funds	\$	4,432,662
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 governmental funds.		11,394,002
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
General Obligation Debt		(8,657,830)
Compensated Absences		(7,463)
Interest Payable		(16,401)
Assets that are not available to pay for current period expenditures are deferred in the governmental funds. Assets at year-end consist of:		
Capital Credits Non-redeemable		92,448
Net pension asset reported in governmental activities is not an available financial resource and therefore not reported in the funds.		8,222
Pension-related Deferred Outflows are components of pension liability (asset) and changes are not reported in the funds.		894,253
Pension-related Deferred Inflows are components of pension liability (asset) and changes are not reported in the funds.		(190,720)
Assets, including property taxes receivable and other receivables that are not available to pay for current period expenditures, are deferred in the governmental funds.		<u>5,055</u>
Net Position - Governmental Activities	\$	<u><u>7,954,228</u></u>

The accompanying notes are an integral part of this statement.

Haakon School District No. 27-1
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2018

	General Fund	Capital Outlay Fund	Special Education Fund
REVENUES			
Revenue From Local Sources:			
Taxes:			
Ad Valorem Taxes	\$ 949,085	\$ 419,878	\$ 241,276
Tax Deed Revenue	2,497	-	-
Gross Receipts Taxes	119,955	-	-
Penalties and Interest on Taxes	1,759	889	478
Cocurricular Activities	27,053	-	-
Earnings on Deposits	11,626	22,484	7,847
Other Local Revenue	<u>22,092</u>	<u>52,094</u>	<u>118</u>
Total Revenue From Local Sources	<u>1,134,067</u>	<u>495,345</u>	<u>249,719</u>
Revenue From Intermediate Sources:			
County Sources	<u>12,840</u>	<u>-</u>	<u>-</u>
Revenue From State Sources:			
Unrestricted Grants-in-aid	<u>1,147,850</u>	<u>-</u>	<u>-</u>
Revenue From Federal Sources:			
Unrestricted Grants-in-aid	15,052	-	-
Restricted Grants-in-aid	<u>113,091</u>	<u>-</u>	<u>69,470</u>
Total Revenue From Federal Sources	<u>128,143</u>	<u>-</u>	<u>69,470</u>
TOTAL REVENUE	<u>2,422,900</u>	<u>495,345</u>	<u>319,189</u>

The accompanying notes are an integral part of this statement.

<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
\$ 138	\$ 557,971	\$ -	\$ 2,168,348
-	-	-	2,497
-	-	-	119,955
13	1,042	-	4,181
-	-	-	27,053
1,402	1,247	47,150	91,756
-	-	-	74,304
<u>1,553</u>	<u>560,260</u>	<u>47,150</u>	<u>2,488,094</u>
-	-	-	<u>12,840</u>
-	-	-	<u>1,147,850</u>
-	-	-	15,052
-	-	-	<u>182,561</u>
-	-	-	<u>197,613</u>
<u>1,553</u>	<u>560,260</u>	<u>47,150</u>	<u>3,846,397</u>

The accompanying notes are an integral part of this statement.

Haakon School District No. 27-1
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds (Continued)
For the Year Ended June 30, 2018

	General Fund	Capital Outlay Fund	Special Education Fund
EXPENDITURES			
Instructional Services:			
Regular Programs	1,599,316	3,614	-
Special Programs	85,662	-	244,859
Total Instruction	<u>1,684,978</u>	<u>3,614</u>	<u>244,859</u>
Support Services:			
Pupils	58,485	-	64,468
Instructional Staff	34,116	4,335	-
General Administration	152,495	-	-
School Administration	176,636	640	-
Business	534,024	55,106	-
Central	2,107	-	-
Special Education	-	-	110,312
Total Support Services	<u>957,863</u>	<u>60,081</u>	<u>174,780</u>
Cocurricular Activities:			
Male Activities	55,233	-	-
Female Activities	27,515	-	-
Transportation	26,897	-	-
Combined Activities	100,224	11,571	-
Total Cocurricular Activities	<u>209,869</u>	<u>11,571</u>	<u>-</u>
Debt Service	-	200,325	-
Capital Outlay	-	102,432	-
TOTAL EXPENDITURES	<u>2,852,710</u>	<u>378,023</u>	<u>419,639</u>
EXCESS OF REVENUE OVER EXPENDITURES	(429,810)	117,322	(100,450)
OTHER FINANCING SOURCES			
Transfers In	-	-	-
Transfers Out	-	(335,468)	-
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>(335,468)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(429,810)	(218,146)	(100,450)
FUND BALANCE - BEGINNING	<u>1,324,226</u>	<u>2,539,744</u>	<u>970,045</u>
FUND BALANCE - ENDING	<u>\$ 894,416</u>	<u>\$ 2,321,598</u>	<u>\$ 869,595</u>

The accompanying notes are an integral part of this statement.

<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
-	-	-	1,602,930
-	-	-	330,521
-	-	-	1,933,451
-	-	-	122,953
-	-	-	38,451
-	-	-	152,495
-	-	-	177,276
-	-	-	589,130
-	-	-	2,107
-	-	-	110,312
-	-	-	1,192,724
-	-	-	55,233
-	-	-	27,515
-	-	-	26,897
-	-	-	111,795
-	-	-	221,440
-	529,360	-	729,685
-	-	8,508,178	8,610,610
-	529,360	8,508,178	12,687,910
1,553	30,900	(8,461,028)	(8,841,513)
-	-	335,468	335,468
-	-	-	(335,468)
-	-	335,468	-
1,553	30,900	(8,125,560)	(8,841,513)
157,184	157,416	8,125,560	13,274,175
<u>\$ 158,737</u>	<u>\$ 188,316</u>	<u>\$ -</u>	<u>\$ 4,432,662</u>

The accompanying notes are an integral part of this statement.

Haakon School District No. 27-1
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ (8,841,513)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.</p>	8,521,590
<p>In the Statement of Activities, losses on disposal of capital assets are reported while the governmental funds only report the proceeds from disposal of capital assets.</p>	(11,782)
<p>The recognition of revenues in the governmental funds differ from the recognition in the governmental activities in the fact that revenue accruals in the fund financial statements require the amounts to be "available."</p>	6,655
<p>Pension expenses in the Statement of Activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds.</p>	294,958
<p>Governmental funds do not reflect the change in compensated absences, but the Statement of Activities reflects the change in these accruals through expenses.</p>	(3,216)
<p>Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term debt liabilities in the Statement of Net Postion.</p>	530,000
<p>Accrued interest expense reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.</p>	275
<p>Amortization of premium</p>	<u>8,028</u>
<p>Change in Net Position of Governmental Activities</p>	<u>\$ 504,995</u>

The accompanying notes are an integral part of this statement.

Haakon School District No. 27-1
Statement of Net Position - Proprietary Fund
June 30, 2018

	<u>Food Service Fund</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 12,744
Due From Other Governments	66
Inventory	<u>2,474</u>
Total Current Assets	<u>15,284</u>
Noncurrent Assets:	
Machinery and Equipment - Local Funds	40,317
Less Accumulated Depreciation	<u>(30,193)</u>
Total Noncurrent Assets	<u>10,124</u>
TOTAL ASSETS	<u>25,408</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	133
Contracts Payable	1,224
Payroll Deductions and Employer Matching Payable	1,258
Unearned Revenue	<u>4,583</u>
TOTAL LIABILITIES	<u>7,198</u>
NET POSITION	
Net Investment in Capital Assets	10,124
Unrestricted	<u>8,086</u>
TOTAL NET POSITION	<u><u>\$ 18,210</u></u>

The accompanying notes are an integral part of this statement.

Haakon School District No. 27-1
Statement of Revenues, Expenses and Changes in Fund
Net Position - Proprietary Fund
For the Year Ended June 30, 2018

	Food Service Fund
OPERATING REVENUE	
Sales to Pupils	\$ 66,941
Sales to Adults	2,794
Sales a la Carte	6,834
Other Sales	4,465
Total Operating Revenue	81,034
OPERATING EXPENSES	
Salaries	35,768
Employee Benefits	9,196
Purchased Services	714
Supplies	424
Cost of Sales - Purchased Food	78,902
Cost of Sales - Donated Food	7,038
Miscellaneous	686
Depreciation	1,660
Total Operating Expenses	134,388
OPERATING LOSS	(53,354)
NONOPERATING REVENUE	
State Sources:	
Cash Reimbursements	526
Federal Sources:	
Cash Reimbursements	38,005
Donated Food	5,198
Total Nonoperating Revenue	43,729
CHANGE IN NET POSITION	(9,625)
NET POSITION - BEGINNING	27,835
NET POSITION- ENDING	\$ 18,210

The accompanying notes are an integral part of this statement.

Haakon School District No. 27-1
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2018

	<u>Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts From Customers	\$ 81,153
Payments to Suppliers	(81,054)
Payments to Employees	<u>(44,947)</u>
Net Cash Used by Operating Activities	<u>(44,848)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating Subsidies	<u>36,666</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,182)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>20,926</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 12,744</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (53,354)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,660
Cost of Sales - Donated Food	7,038
Change in Assets and Liabilities:	
Inventory	(328)
Unearned Revenue	119
Payroll Deductions and Employer Matching Payable	<u>17</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (44,848)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Value of Commodities Received	<u>\$ 5,198</u>

The accompanying notes are an integral part of this statement.

Haakon School District No. 27-1
Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2018

	<u>Private- purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 21,712	<u>\$ 128,178</u>
Certificates of Deposit	197,049	
Investments in Assets Held by Others	<u>74,654</u>	
TOTAL ASSETS	<u>\$ 293,415</u>	
LIABILITIES		
Amounts Held for Others	<u>\$ -</u>	<u>\$ 128,178</u>
NET POSITION		
Restricted for Scholarships:		
Non-expendable	239,690	
Expendable	<u>53,725</u>	
TOTAL NET POSITION	<u>\$ 293,415</u>	

The accompanying notes are an integral part of this statement.

Haakon School District No. 27-1
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2018

	<u>Private- purpose Trust Funds</u>
ADDITIONS	
Private Donations	\$ 88,889
Interest Earnings	<u>17</u>
Total Additions	88,906
DEDUCTIONS	
Scholarships Awarded	<u>45,700</u>
CHANGE IN NET POSITION	43,206
NET POSITION - BEGINNING	<u>250,209</u>
NET POSITION - ENDING	<u><u>\$ 293,415</u></u>

The accompanying notes are an integral part of these financial statements.

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to generally accepted accounting principles (GAAP) applicable to government entities in the United States of America.

A. REPORTING ENTITY

The reporting entity of Haakon County School District No. 27-1 (the 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 financial reporting entity's financial statements to be misleading or incomplete.

The District is a public education agency operating under the applicable laws and regulations of the State of South Dakota. It is governed by a seven-member Board of Education (the Board) elected by registered voters of the District. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has accountability for fiscal matters. There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the overall government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities.

The statements distinguish between the governmental and business-type activities of the District. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Position reports all financial and capital resources in a net position form (assets and deferred outflows of resources minus liabilities and deferred inflows of resources equal 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 District and for each function of the 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 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.

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is a primary operating fund of the District or if it meets the following criteria:

1. Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent 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 year to year or because of public interest in the fund's operations.

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

Governmental Funds:

General Fund - The General Fund is established by South Dakota Codified Law (SDCL) 13-16-3 to meet all the general operational costs of the 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 District's special revenue funds are as follows:

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

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

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

Debt Service Funds - Debt service funds are used to account for accumulations 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 Project Funds - Capital projects funds are used to account for financial resources to be used for acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds)

The Capital Project Fund is the only capital projects fund maintained by the school district. This is a major fund.

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Funds:

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

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.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds.

Private-Purpose Trust Fund Types - Private-purpose trust funds are used to account for all trust arrangements under which principal and income benefits individuals, private organizations, or other governments. The District maintains several Scholarship Funds. The purpose of these funds is to provide scholarships to qualifying students.

Agency Fund Types - Agency funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of the results of operations. The District maintains a variety of agency funds to hold assets as an agent in a trustee capacity for various classes, clubs, and so on.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

Government-wide Financial Statements:

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

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental and similar fiduciary fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and capital credits, generally are recognized when they become measurable and available. "Available" means resources are collected or will 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 District considers significant revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

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

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

D. CASH AND CASH EQUIVALENTS

For the purpose of preparing the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

E. INVENTORY

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out for enterprise fund inventories and average cost for governmental fund inventories.

Donated commodities are valued at estimated market value based on the USDA price list at the date of receipt.

Inventory in the governmental funds and governmental activities consist of expendable supplies held for consumption. In the government-wide financial statements and in the enterprise fund, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed. In the governmental funds, the cost of inventory purchased is recorded as an expenditure at the time inventory items are purchased. Inventories reported in the governmental fund financial statements are equally offset by a Nonspendable Fund Balance, unless included in accounts payable, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. As of June 30, 2018, there was no inventory reported in governmental funds.

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. RESTRICTED ASSETS

The District has reported restricted assets in the Capital Project fund and on the Statement of Net Position. The amounts reported as restricted for capital projects represent the proceeds from the bonds issued that have not yet been spent for the construction project.

The District has also reported restricted assets in the Statement of Net Position. The amounts reported as restricted for Net Pension Asset represent the District's proportionate share of the Net Pension Asset of the South Dakota Retirement System.

G. CAPITAL ASSETS

Capital assets include land, buildings, improvements, 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 of 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.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the 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 financial statements.

Government-wide Financial Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition of use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized. Interest costs incurred during construction of general capital assets are not capitalized.

Capitalization thresholds (the dollar value above which individual asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide financial statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Land	\$ 1,000	-----
Buildings	5,000	50 yrs
Improvements	5,000	20 yrs
Equipment (government-wide)	5,000	5-15 yrs
Equipment (proprietary funds)	1,000	5-15 yrs

Depreciation expense is calculated using the straight-line and composite methods. All depreciation of exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities. Land is an inexhaustible capital asset and is not depreciated.

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. 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.

Government-wide Financial Statements:

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide financial statements. Long-term liabilities consist of compensated absences and bonds payable.

Compensated Absences - Accrued leave payable is accounted for using the methods described below related to long-term liabilities. Vacation leave is earned by 12-month employees at varying rates depending on years of service. Sick leave is earned by the employees based on their contracts. Upon termination, employees are entitled to receive compensation for their accrued vacation; employees are not entitled to compensation for sick leave balances. Accrued leave payable balances, which require an accrual in the financial statements, are reported in Note 5 as compensated absences. For employees normally paid out of the governmental funds, these amounts are charged as an expenditure at the time of retirement. Compensated absences for governmental activities typically have been liquidated from the General Fund.

Fund Financial Statements:

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 as in the government-wide financial statements.

I. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

The District reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary fund statements of net position. The only deferred outflow of resources reported is a deferred amount arising from the District's pension plan for qualified retirees as discussed in Note 8.

The District's governmental funds report a separate section for deferred inflows of resources. This section reflects a decrease in net position that applies to a future period or periods. Under the modified accrual basis of accounting, governmental fund revenues are not recognized until available (collected no later than 60 days after the end of the District's fiscal year). The District reports the following as deferred inflows of resources in the governmental funds: property taxes levied but not collected within the available period; property taxes collected within the available period that are intended to finance the next fiscal year; and capital credits that are owed to the District, but will be received at some point in the future. In the government-wide financial statements, the District reports deferred inflows of resources for property taxes levied for a future period. The District has no deferred inflows of resources to report in the proprietary fund statements for the current year.

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. NET POSITION AND FUND BALANCE

Government-wide Financial Statements:

Equity on the Statement of Net Position includes the following three components:

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 capital outlay certificates, bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - Consists of net position with constraints placed on its 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.

Unrestricted - Represents all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

Fund Financial Statements:

The District classifies governmental fund balances as follows:

Nonspendable - Includes fund amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted - Constraints are placed on the use of resources by either (a) external creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law by constitutional provisions or enabling legislation.

Assigned - Amounts that are constrained by the District's intent to be used for specific purposes but that are not considered restricted or committed. The Board and management have the authority to assign fund balances.

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 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 District would first use *committed*, then *assigned* and lastly *unassigned* amounts of unrestricted fund balance when expenditures are made.

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

Proprietary net position is classified the same as in the government-wide financial statements. Fiduciary net position (except for Agency Funds, which do not have net position) is reported as net position held in trust for other purposes.

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. PROPRIETARY FUND REVENUE AND EXPENSE CLASSIFICATIONS

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

L. PROGRAM REVENUES

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

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.

Program Revenues - 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.

Program Revenues - 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.

M. UNEARNED REVENUE

The proprietary fund reports meal tickets that have been purchased but not yet redeemed as unearned revenue.

N. PENSIONS

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS' fiduciary net position have been determined on the same basis as they are reported by SDRS, District contributions and net pension asset are recognized on the accrual basis of accounting.

NOTE 2 - DEPOSITS AND INVESTMENTS

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. The General, Capital Outlay, Special Education, Pension, Debt Redemption, and Capital Project funds participate in the internal cash pool. Statutes impose various restrictions on deposits and investments. These restrictions are summarized below:

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

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The District's policy is to report at cost plus interest and credit all income from investments and deposits to the fund making the investment, except capital credits which are reported entirely in the General Fund.

Investments - In general, SDCL 4-5-6 permits school district funds to be invested only 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 investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk - State law limits eligible investments for the District, as discussed above. The District has no investment policy that would further limit its investment choices. As of June 30, 2018, the following investments were held by the District to repay debt obligations:

Investment	Credit	Level	Total	Amount Due in Less Than One Year
Money Market	N/A	1	\$ 488,786	\$ 488,786
Certificates of Deposit	N/A	1	<u>200,000</u>	<u>200,000</u>
Total			<u>\$ 688,786</u>	<u>\$ 688,786</u>
Interest in Assets Held by Others	N/A	3	<u>\$ 74,654</u>	<u>\$ -</u>

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk.

Concentration of Credit Risk - The District places no limit on the amount that may be deposited with any one financial institution. The District's deposits are with one financial institution; the District's deposits were not exposed to credit risk as all deposits were fully collateralized by pledged securities.

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

NOTE 3 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments included in the fund financial statements consisted of \$95,917 due from the S.D. Department of Education, \$15,186 from the S.D. Department of Environment and Natural Resources, and \$73,459 due from Haakon County at June 30, 2018.

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 4 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Increase	Decrease	Balance June 30, 2018
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 26,020	\$ -	\$ -	\$ 26,020
Construction in Progress	<u>792,857</u>	<u>8,508,178</u>	<u>-</u>	<u>9,301,035</u>
Total Capital Assets Not Being Depreciated	<u>\$ 818,877</u>	<u>\$ 8,508,178</u>	<u>\$ -</u>	<u>\$ 9,327,055</u>
Capital Assets Being Depreciated:				
Buildings	\$ 4,822,247	\$ -	\$ (209,103)	\$ 4,613,144
Improvements	106,324	-	-	106,324
Equipment	<u>1,080,645</u>	<u>102,431</u>	<u>(49,227)</u>	<u>1,133,849</u>
Total Capital Assets Being Depreciated	<u>6,009,216</u>	<u>102,431</u>	<u>(258,330)</u>	<u>5,853,317</u>
Less Accumulated Depreciation for:				
Buildings	3,555,115	39,636	(197,322)	3,397,429
Improvements	75,186	4,864	-	80,050
Equipment	<u>313,179</u>	<u>44,940</u>	<u>(49,228)</u>	<u>308,891</u>
Total Accumulated Depreciation	<u>3,943,480</u>	<u>89,440</u>	<u>(246,550)</u>	<u>3,786,370</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 2,065,736</u>	<u>\$ 12,991</u>	<u>\$ (11,780)</u>	<u>\$ 2,066,947</u>
Business-type Activities:				
Equipment	\$ 40,317	\$ -	\$ -	\$ 40,317
Less Accumulated Depreciation	<u>28,533</u>	<u>1,660</u>	<u>-</u>	<u>30,193</u>
Net Capital Assets	<u>\$ 11,784</u>	<u>\$ (1,660)</u>	<u>\$ -</u>	<u>\$ 10,124</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 39,635
Support Services	32,144
Cocurricular Activities	<u>17,661</u>
Total Depreciation Expense	<u>\$ 89,440</u>

Depreciation expense for the business-type activities was charged to the Food Service Fund.

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 5 - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities:

	Balance June 30, 2017	Increase	Decrease	Balance June 30, 2018	Amounts Due Within 1 Year
Governmental Activities:					
General Obligation Debt					
Series 2016 Bond Premium	\$ 155,858	\$ -	\$ 8,028	\$ 147,830	\$ -
Series 2016 Bond	8,840,000	-	330,000	8,510,000	355,000
Qualified Zone Academy Bonds	200,000	-	200,000	-	-
Other Liabilities:					
Compensated Absences	<u>4,247</u>	<u>17,741</u>	<u>14,525</u>	<u>7,463</u>	<u>7,463</u>
Total Long-term Liabilities	<u>\$ 9,200,105</u>	<u>\$ 17,741</u>	<u>\$ 552,553</u>	<u>\$ 8,665,293</u>	<u>\$ 362,463</u>
Series 2016 Bonds, Interest varying between 1-3%, Due 12/01/2037					\$ 8,510,000
Series 2016 Bond Premiums, amortized over 20 years					<u>147,830</u>
					<u>\$ 8,657,830</u>

The annual debt service requirements to maturity for all long-term debt outstanding as of June 30, 2018, excluding compensated absences are as follows:

Year Ending June 30,	General Obligation Debt		Totals
	Principal	Interest	
2019	\$ 355,000	\$ 195,035	\$ 550,035
2020	360,000	195,035	555,035
2021	365,000	191,370	556,370
2022	370,000	187,290	557,290
2023	375,000	182,695	557,695
2024-2028	1,965,000	822,260	2,787,260
2029-2033	2,190,000	604,100	2,794,100
2034-2038	<u>2,530,000</u>	<u>268,800</u>	<u>2,798,800</u>
	<u>\$ 8,510,000</u>	<u>\$ 2,646,585</u>	<u>\$ 11,156,585</u>

Compensated absence payments are made from the fund that the payroll expenditures are charged.

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 6 - RESTRICTED NET POSITION

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

<u>Purpose</u>	<u>Restricted By</u>	
Major Purposes:		
Capital Outlay	Law	\$ 2,656,087
Special Education	Law	869,032
Debt Services	Debt Covenants	187,015
Share of Net Pension Asset	Law	<u>711,755</u>
Total		<u>\$ 4,423,889</u>

Although unrestricted, the business-type activities' net position in the amount of \$8,086 is limited by federal regulations as the District's food services are primarily funded with federal grants.

NOTE 7 - PROPERTY TAX

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

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 are not intended to be used to finance the 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 the 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."

State statute allows the General Fund tax rates to be increased by special election of the voters.

NOTE 8 - PENSION PLAN

Plan Information

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

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 8 - PENSION PLAN (CONTINUED)

Benefits Provided

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

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

- If the SDRS market value funded ratio is
 - 100% or more - 3.1% COLA
 - 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
 - Less than 80% - 2.1% COLA

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to 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 3rd 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 3rd 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.

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 8 - PENSION PLAN (CONTINUED)

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 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended June 30, 2018, 2017, and 2016 were \$106,666, \$110,452, and \$90,580 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 asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the District as of the measurement period ending June 30, 2017 and reported by the District as of June 30, 2018 are as follows:

Proportionate Share of Pension Liability	\$ 10,541,626
Less: Proportionate Share of Net Pension Restricted for Pension Benefits	<u>10,549,848</u>
Proportionate Share of Net Pension Liability (Asset)	<u>\$ (8,222)</u>

At June 30, 2018, the District reported a liability (asset) of \$(8,222) 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 District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the District's proportion was 0.0906% which is an increase (decrease) of 0.01124% from its proportion measured as of June 30, 2016.

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 8 - PENSION PLAN (CONTINUED)

For the year ended June 30, 2018, the District recognized pension expense (reduction of pension expense) of \$(188,292). At June 30, 2018, the 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	\$ 131,744	\$ -
Changes in Assumption	638,412	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	158,082
Changes in Proportion and Difference Between District Contributions and Proportionate Share of Contributions	17,431	32,638
District Contributions Subsequent to the Measurement Date	106,666	-
Total	\$ 894,253	\$ 190,720

\$106,666 reported as deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date 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,		
2019	\$	163,330
2020		276,564
2021		198,669
2022		(41,696)
2023		-
Thereafter		-
Total	\$	596,867

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 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00%
Discount Rate	6.50% net of plan investment expenses

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 8 - PENSION PLAN (CONTINUED)

Mortality rates were based on 97% of the RP-2014 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 RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale 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	<u>2.0%</u>	0.7%
Total	<u>100%</u>	

Discount Rate

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

Sensitivity of Liability (Asset) to Changes in the Discount Rate

The following presents the District's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, 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 (5.5 percent) or 1-percentage point higher (7.50 percent) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's Proportionate Share of the Net Pension (Asset)/Liability	<u>\$ 1,505,916</u>	<u>\$ (8,222)</u>	<u>\$ (1,241,223)</u>

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 8 - PENSION PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

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

NOTE 9 - INVESTMENTS IN ASSETS HELD BY OTHERS

The District has unconditional rights to assets held by the South Dakota Community Foundation (Community Foundation). The value of investments held by the Community Foundation on the District's behalf was \$74,654 as of the year ended June 30, 2018. The interest in the Community Foundation is reported at fair market value each year. Assets held by the Community Foundation are used to pay scholarships and are reported as a component of the fiduciary funds.

NOTE 10 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2018 were as follows:

<u>Transfers From:</u>	<u>Transfers To:</u>
Capital Outlay Fund	Capital Projects Fund
	\$ 335,468

Funds were transferred from Capital Outlay to Capital Projects to cover a deficit fund balance at year-end.

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2018, the District managed its risks as follows:

Employee Health Insurance

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

Unemployment Benefits

The District has elected to be self-insured and retains all risk for liabilities resulting from claims for unemployment benefits. Unemployment claims, if any, are intended to be paid from current year appropriations, normally from the General Fund.

Claims are billed by the state quarterly. During the year ended June 30, 2018 no claims had been filed for unemployment benefits and none, deemed to be of a material nature, are anticipated in the next fiscal year.

Liability Insurance

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

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 11 - RISK MANAGEMENT (CONTINUED)

Worker's Compensation

The 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 (the Pool) which provides workers' compensation insurance coverage for participating members of the Pool. The objective of the Pool 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 District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report and to cooperate with the Pool to resolve any worker's compensation claims.

The 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 Pool members. The 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 \$1,000,000 per individual, per incident. There was no additional assessment charged to Pool members for the year ended June 30, 2018.

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

NOTE 12 - JOINT VENTURE

The District participates in the Black Hills Special Services Cooperative (the Co-op), a cooperative service unit formed for the purpose of providing special education and other services to the member school districts.

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

- Belle Fourche School District 8.33%
- Custer School District 8.33%
- Douglas School District 8.33%
- Edgemont School District 8.33%
- Haakon School District 8.33%
- Hill City School District 8.33%
- Hot Springs School District 8.33%
- Lead/Deadwood School District 8.33%
- Meade School District 8.33%
- Oelrichs School District 8.33%
- Rapid City School District 8.33%
- Spearfish School District 8.33%

The Co-op's governing board is comprised of one representative, a school board member, 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.

Haakon School District No. 27-1
Notes to the Financial Statements
June 30, 2018

NOTE 12 - JOINT VENTURE (CONTINUED)

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

Separate financial statements may be obtained by writing to BHSSC, PO Box 218, Sturgis, SD 57785. At June 30, 2017, this joint venture had assets of \$7,487,065, deferred outflows of \$5,617,630, liabilities of \$5,854,466, and net position of \$7,250,229 (unaudited).

The District paid \$678 for contract for services with the Co-op during the year ended June 30, 2018.

NOTE 13 - OPERATING LEASES

In May 2017, the District entered into a five-year lease agreement for office equipment. Minimum monthly lease payments under this lease are \$414. The District recognized \$4,963 of expenses under this lease for the year ended June 30, 2018. Future minimum lease payments are \$4,963 annually through the year ended June 30, 2021 and of \$4,136 for the year ended June 30, 2022.

NOTE 14 - CONCENTRATIONS

The District is dependent upon program revenues and operating revenues from the State of South Dakota for its primary existence.

NOTE 15 - COMMITMENTS

The District has entered into several contracts for the engineering and construction of a new building. The estimated cost of the project is \$10,244,018, and the estimated completion date is August 2018. The District issued bonds in the amount of \$8,840,000 to help pay for the project. The remaining costs will be paid with the District's cash reserves in the Capital Outlay Fund and General Fund.

NOTE 16 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the independent auditor's report which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Haakon School District No. 27-1
Budgetary Comparison Schedule - General Fund - Budgetary Basis
For the Year Ended June 30, 2018

	<u>Budgeted Original</u>	<u>Budgeted Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
REVENUE				
Revenue From Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 981,101	\$ 981,101	\$ 949,085	\$ (32,016)
Tax Deed Revenue	-	-	2,497	2,497
Gross Receipts Taxes	100,000	100,000	119,955	19,955
Penalties and Interest on Taxes	1,100	1,100	1,759	659
Cocurricular Activities	24,000	24,000	27,053	3,053
Earnings on Deposits	6,000	6,000	11,626	5,626
Other Local Revenue	<u>18,020</u>	<u>18,020</u>	<u>22,092</u>	<u>4,072</u>
Total Revenue From Local Sources	<u>1,130,221</u>	<u>1,130,221</u>	<u>1,134,067</u>	<u>3,846</u>
Revenue From Intermediate Sources:				
County Sources	<u>15,000</u>	<u>15,000</u>	<u>12,840</u>	<u>(2,160)</u>
Revenue From State Sources:				
Unrestricted Grants-in-aid	<u>1,145,150</u>	<u>1,145,150</u>	<u>1,147,850</u>	<u>2,700</u>
Revenue From Federal Sources:				
Unrestricted Grants-in-aid	5,500	5,500	15,052	9,552
Restricted Grants-in-aid	<u>119,530</u>	<u>119,530</u>	<u>113,091</u>	<u>(6,439)</u>
Total Revenue From Federal Sources	<u>125,030</u>	<u>125,030</u>	<u>128,143</u>	<u>3,113</u>
TOTAL REVENUE	<u>2,415,401</u>	<u>2,415,401</u>	<u>2,422,900</u>	<u>7,499</u>

See independent auditor's report and notes to required supplementary information.

	<u>Budgeted Original</u>	<u>Budgeted Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES				
Instructional Services:				
Regular Programs	1,484,421	1,617,094	1,599,316	17,778
Special Programs	<u>81,281</u>	<u>81,281</u>	<u>85,662</u>	<u>(4,381)</u>
Total Instruction	<u>1,565,702</u>	<u>1,698,375</u>	<u>1,684,978</u>	<u>13,397</u>
Support Services:				
Pupils	60,868	60,868	58,485	2,383
Instructional Staff	38,376	42,234	34,116	8,118
General Administration	154,704	154,704	152,495	2,209
School Administration	170,640	170,640	176,636	(5,996)
Business	546,489	546,489	534,024	12,465
Central	<u>1,600</u>	<u>1,600</u>	<u>2,107</u>	<u>(507)</u>
Total Support Services	<u>972,677</u>	<u>976,535</u>	<u>957,863</u>	<u>18,672</u>
Cocurricular Activities:				
Male Activities	52,615	52,615	55,233	(2,618)
Female Activities	31,769	31,769	27,515	4,254
Activity Transportation	39,739	39,739	26,897	12,842
Combined Activities	<u>95,093</u>	<u>95,093</u>	<u>100,224</u>	<u>(5,131)</u>
Total Cocurricular Activities	<u>219,216</u>	<u>219,216</u>	<u>209,869</u>	<u>9,347</u>
Other Nonprogrammed Costs	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Contingencies	<u>30,000</u>	<u>30,000</u>	<u>-</u>	<u>30,000</u>
TOTAL EXPENDITURES	<u>2,788,595</u>	<u>2,925,126</u>	<u>2,852,710</u>	<u>72,416</u>
NET CHANGE IN FUND BALANCES	(373,194)	(509,725)	(429,810)	79,915
FUND BALANCE - BEGINNING	<u>1,324,226</u>	<u>1,324,226</u>	<u>1,324,226</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 951,032</u>	<u>\$ 814,501</u>	<u>\$ 894,416</u>	<u>\$ 79,915</u>

See independent auditor's report and notes to required supplementary information.

Haakon School District No. 27-1
Budgetary Comparison Schedule - Capital Outlay Fund - Budgetary Basis
For the Year Ended June 30, 2018

	<u>Budgeted Original</u>	<u>Budgeted Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Revenue From Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 436,000	\$ 436,000	\$ 419,878	\$ (16,122)
Penalties and Interest on Taxes	1,500	1,500	889	(611)
Earnings on Deposits	7,000	7,000	22,484	15,484
Other Local Revenue	<u>40,297</u>	<u>40,297</u>	<u>52,094</u>	<u>11,797</u>
Total Revenue From Local Sources	<u>484,797</u>	<u>484,797</u>	<u>495,345</u>	<u>10,548</u>
TOTAL REVENUE	<u>484,797</u>	<u>484,797</u>	<u>495,345</u>	<u>10,548</u>
EXPENDITURES				
Instructional Services:				
Regular Programs	<u>231,820</u>	<u>231,820</u>	<u>3,614</u>	<u>228,206</u>
Total Instruction	<u>231,820</u>	<u>231,820</u>	<u>3,614</u>	<u>228,206</u>
Support Services:				
Instructional Staff	9,000	9,000	6,136	2,864
General Administration	12,000	12,000	-	12,000
School Administration	24,640	24,640	640	24,000
Business	<u>91,530</u>	<u>91,530</u>	<u>71,887</u>	<u>19,643</u>
Total Support Services	<u>137,170</u>	<u>137,170</u>	<u>78,663</u>	<u>58,507</u>
Cocurricular Activities:				
Transportation	83,850	83,850	83,850	-
Combined Activities	<u>14,305</u>	<u>14,305</u>	<u>11,571</u>	<u>2,734</u>
Total Cocurricular Activities	<u>98,155</u>	<u>98,155</u>	<u>95,421</u>	<u>2,734</u>
Debt Services	<u>325</u>	<u>325</u>	<u>200,325</u>	<u>(200,000)</u>
TOTAL EXPENDITURES	<u>467,470</u>	<u>467,470</u>	<u>378,023</u>	<u>89,447</u>
EXCESS OF REVENUE OVER EXPENDITURES	17,327	17,327	117,322	99,995
OTHER FINANCING SOURCES				
Transfers Out	<u>(1,400,000)</u>	<u>(1,400,000)</u>	<u>(335,468)</u>	<u>1,064,532</u>
NET CHANGE IN FUND BALANCES	(1,382,673)	(1,382,673)	(218,146)	1,164,527
FUND BALANCE - BEGINNING	<u>2,539,744</u>	<u>2,539,744</u>	<u>2,539,744</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 1,157,071</u>	<u>\$ 1,157,071</u>	<u>\$ 2,321,598</u>	<u>\$ 1,164,527</u>

See independent auditor's report and notes to required supplementary information.

Haakon School District No. 27-1
Budgetary Comparison Schedule - Special Education Fund -
Budgetary Basis
For the Year Ended June 30, 2018

	<u>Budgeted Original</u>	<u>Budgeted Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
REVENUE				
Revenue From Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 252,500	\$ 252,500	\$ 241,276	\$ (11,224)
Penalties and Interest on Taxes	500	500	478	(22)
Earnings on Deposits	4,500	4,500	7,847	3,347
Other Local Revenue	<u>150</u>	<u>150</u>	<u>118</u>	<u>(32)</u>
Total Revenue From Local Sources	<u>257,650</u>	<u>257,650</u>	<u>249,719</u>	<u>(7,931)</u>
Revenue From Federal Sources:				
Restricted Grants-in-aid	<u>68,952</u>	<u>68,952</u>	<u>69,470</u>	<u>518</u>
Total Revenue From Federal Sources	<u>68,952</u>	<u>68,952</u>	<u>69,470</u>	<u>518</u>
TOTAL REVENUE	<u>326,602</u>	<u>326,602</u>	<u>319,189</u>	<u>(7,413)</u>
EXPENDITURES				
Instructional Services:				
Special Programs	<u>324,618</u>	<u>341,666</u>	<u>244,859</u>	<u>96,807</u>
Support Services:				
Pupils	67,362	81,362	64,468	16,894
Instructional Staff	500	500	-	500
General Administration	3,000	3,000	-	3,000
Business	6,000	9,000	-	9,000
Special Education	<u>28,360</u>	<u>33,360</u>	<u>110,312</u>	<u>(76,952)</u>
Total Support Services	<u>105,222</u>	<u>127,222</u>	<u>174,780</u>	<u>(47,558)</u>
TOTAL EXPENDITURES	<u>429,840</u>	<u>468,888</u>	<u>419,639</u>	<u>49,249</u>
NET CHANGE IN FUND BALANCES	(103,238)	(142,286)	(100,450)	41,836
FUND BALANCE - BEGINNING	<u>970,045</u>	<u>970,045</u>	<u>970,045</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 866,807</u>	<u>\$ 827,759</u>	<u>\$ 869,595</u>	<u>\$ 41,836</u>

See independent auditor's report and notes to required supplementary information.

Haakon School District No. 27-1
Budgetary Comparison Schedule - Pension Fund - Budgetary Basis
For the Year Ended June 30, 2018

	<u>Budgeted Original</u>	<u>Budgeted Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
REVENUE				
Revenue From Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ -	\$ -	\$ 138	\$ 138
Penalties and Interest on Taxes	-	-	13	13
Earnings on Deposits	<u>125</u>	<u>125</u>	<u>1,402</u>	<u>1,277</u>
Total Revenue From Local Sources	<u>125</u>	<u>125</u>	<u>1,553</u>	<u>1,428</u>
TOTAL REVENUE	<u>125</u>	<u>125</u>	<u>1,553</u>	<u>1,428</u>
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	125	125	1,553	1,428
FUND BALANCE - BEGINNING	<u>157,184</u>	<u>157,184</u>	<u>157,184</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 157,309</u>	<u>\$ 157,309</u>	<u>\$ 158,737</u>	<u>\$ 1,428</u>

See independent auditor's report and notes to required supplementary information.

Haakon School District No. 27-1
Notes to the Required Supplementary Information -
Budgetary Comparison Schedules
For the Year Ended June 30, 2018

NOTE 1 - BASIS OF PRESENTATION

The Budgetary Comparison Schedules have been prepared on the budgetary basis of accounting. The Budgetary Comparison Schedules present capital outlay expenditures within each function while the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds present capital outlay expenditures as a separate function.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular board meeting in May of each year, the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
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 of 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 and actual expenditures of each fund cannot exceed the amounts budgeted, 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 percent of the total 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 the adoption of supplemental budgets when monies 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. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and major special revenue funds of the District.

Haakon School District No. 27-1
Schedule of Net Pension Liability (Asset)
For the Years Ended June 30

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>
District's Proportion of the Net Pension Liability (Asset)	0.09060300%	0.07935390%	0.08602920%	0.08498910%
District's Proportionate Share of Net Pension Liability (Asset)	\$ (8,222)	\$ 268,050	\$ (364,875)	\$ (612,312)
District's Covered-employee Payroll	1,840,867	1,508,912	1,570,665	1,486,226
District's Proportionate Share of the Net Position Liability (Asset) as a Percentage of its Covered-employee Payroll	(0.45)%	(17.76)%	(23.23)%	(41.20)%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	100.10%	96.89%	104.10%	107.29%

*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is June 30 of the previous fiscal year.

**Haakon School District No. 27-1
Schedule of Pension Contributions
For the Years Ended June 30**

	2018	2017	2016	2015
Contractually-required Contribution	\$ 106,666	\$ 110,452	\$ 90,580	\$ 94,239
Contributions in Relation to the Contractually-required Contribution	<u>106,666</u>	<u>110,452</u>	<u>90,580</u>	<u>94,239</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-employee Payroll	<u>\$ 1,777,758</u>	<u>\$ 1,840,867</u>	<u>\$ 1,508,912</u>	<u>\$ 1,570,655</u>
Contributions as a Percentage of Covered-employee Payroll	6.0%	6.0%	6.0%	6.0%

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OTHER INFORMATION

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**Haakon School District No. 27-1
School District Officials
June 30, 2018**

BOARD MEMBERS

Chairman - Mark Radway
Vice Chairman - Jake Fitzgerald
Scott Brech
Vonda Hamill
Brad Kuchenbecker
Anita Peterson
Doug Thorson

SUPERINTENDENT

Jeffery Rickman

BUSINESS MANAGER

Britni Ross