



Financial Statements  
June 30, 2018

# Northwestern Area School District 56-7

Northwestern Area School District 56-7  
School District Officials (Unaudited)  
June 30, 2018

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School Board Chairman ..... Troy Grandpre

School Board Vice-Chairman ..... Amy Troske

School Board Members..... Heide Boekelheide  
Brett Toennies  
Mary Mielke

Superintendent ..... Ryan Bruns

Business Manager ..... Lisa Frericks

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## Independent Auditor's Report

The School Board  
Northwestern Area School District 56-7  
Mellette, 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 the Northwestern Area School District 56-7 (the School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District, 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 schedules, schedule of the School District's share of net pension liability (asset), and schedule of the School District's contributions as listed on pages 3 through 9 and 42 through 50, 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 District's basic financial statements as a whole. The school district officials are presented for purposes of additional analysis and are not a required part of the basic financial statements. The school district officials have not been subjected to the auditing procedures applied in the audit of the basic 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 November 15, 2018, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Aberdeen, South Dakota  
November 15, 2018

This section of Northwestern Area School District 56-7's annual financial report presents our discussion and analysis of the district's financial performance during the fiscal year ended on June 30, 2018. It is to be read in conjunction with the School Districts' financial statements which follow this section. The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

### **Financial Highlights**

- During the year, the School District's total expenditures in governmental activities exceeded total revenues by \$382,491. When compared to Fiscal Year 2017, revenues decreased overall by 11%, while expenditures increased by 8% during the same period.

### **Overview of the Financial Statements**

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information shown as Notes to the Financial Statements.

The first two statements are government-wide financial statements that provide both long-term and short-term information about the School District's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide statements and are comprised of three separate and distinct sections:

- The governmental funds statements show how general government services were financed in the short-term as well as what remains for future spending in general fund and special revenue funds (capital outlay, special education, and pension fund).
- Proprietary funds statements offer short-and-long-term financial information about the activities the School District operates like businesses. The School District operates two proprietary funds: Food Service and Non-Credit Fund that includes preschool and drivers education.
- Fiduciary fund statements provide information about the financial relationships (i.e. scholarship funds for graduating students or class/club funds) in which the School District acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

### **Government-Wide Statements**

The government-wide statements report information about the School 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.

The two government-wide statements report the School District's net position and how they have changed. Net position, the difference between the School District's assets and liabilities, are one way to measure the School District's financial health or position. Over time, increases or decreases in the School District's net position is an indication of whether its financial health is improving or deteriorating, respectively. The School District's government-wide statement shows a decrease in net position for Fiscal Year 2018.

The government-wide financial statements of the School District are divided into two categories:

- **Governmental Activities** – This category includes the School District's basic instructional services, such as elementary, middle school and high school educational programs, support services (guidance, executive administration, board of education, fiscal services, buildings and grounds, transportation, etc.), debt service payments, co-curricular activities (sports, oral interpretation, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and miscellaneous local revenues finance most of these activities.
- **Business-Type Activities** – The School District operates a food service operation. In addition to charging for meals in food service, the operation also received federal program reimbursements. Besides the revenue received for user fees, the program also relies upon donations and private and governmental grants when available. Other business-type activities include a non-credit education program for drivers education and a preschool.

### **Fund Financial Statements**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Funds are accounting devices that the School District uses to keep track of specific sources of funding and spending for particular purposes, some of which are required by state law or established by the School District's Board of Education.

The School District has three kinds of funds:

- **Governmental Funds** – All of the School 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 stakeholders determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between the fund financials and the government-wide statement.
- **Proprietary Funds** – Services for which the School District charges customers a fee, i.e. food service, are reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information.
- **Fiduciary Funds** – The School District is trustee, or fiduciary, for various external and internal parties. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the School District's government-wide financial statements because the School District does not own and cannot use these assets to finance its operations. An internal audit of these funds is conducted at the end of each fiscal year.

### **Financial Analysis of the School District as A Whole**

The School District's total combined position was \$5,780,511 at June 30, 2018, an increase of \$402,676 from the previous year. A comparative computation of net position is detailed below in Table A-1.

Table  
A-1  
Statement of Net Position  
Fiscal Year Ended June 30, 2018 and 2017

|   | Governmental |           | Business-Type |         | Total           |           |
|---|--------------|-----------|---------------|---------|-----------------|-----------|
|   | Activities   |           | Activities    |         | School District |           |
|   | FY 2018      | FY 2017   | FY 2018       | FY 2017 | FY 2018         | FY 2017   |
| Current & Other Assets                            | 4,096,548    | 3,974,893 | 14,519        | 10,959  | 4,111,067       | 3,985,852 |
| Net Pension Assets                                | 6,427        | -         | 260           | -       | 6,687           | -         |
| Capital Assets                                    | 2,567,996    | 2,539,624 | 20,185        | 14,029  | 2,588,181       | 2,553,653 |
| Total Assets                                      | 6,670,971    | 6,514,517 | 34,964        | 24,988  | 6,705,935       | 6,539,505 |
| Deferred Outflows of Resources-Pension            | 708,482      | 615,022   | 28,708        | 22,313  | 737,190         | 637,335   |
| Total Assets/DOF                                  | 7,379,453    | 7,129,539 | 63,672        | 47,301  | 7,443,125       | 7,176,840 |
| Long-Term Debt Outstanding                        | 34,286       | 33,300    | -             | -       | 34,286          | 33,300    |
| Net Pension Liability                             | -            | 246,769   | -             | 8,953   | -               | 255,722   |
| Other Liabilities                                 | 248,091      | 326,568   | 6,406         | 5,855   | 254,497         | 332,423   |
| Total Liabilities                                 | 282,377      | 606,637   | 6,406         | 14,808  | 288,783         | 621,445   |
| Deferred Inflows of Resources                     | 1,368,824    | 1,177,560 | 5,007         | -       | 1,373,831       | 1,177,560 |
| Net Position:                                     |              |           |               |         |                 |           |
| Net Investment in Capital Assets                  | 2,558,710    | 2,539,624 | 20,185        | 14,029  | 2,578,895       | 2,553,653 |
| Restricted  | 2,379,830    | 2,025,952 | 23,961        | 13,360  | 2,403,791       | 2,039,312 |
| Unrestricted                                      | 789,712      | 779,766   | 8,113         | 5,104   | 797,825         | 784,870   |
| Total Net Position                                | 5,728,252    | 5,345,342 | 52,259        | 32,493  | 5,780,511       | 5,377,835 |
| Beginning Net Position                            | 5,345,342    | 5,477,833 | 32,493        | 35,400  | 5,377,835       | 5,513,233 |
| Increase (Decrease) in Net Position               | 382,910      | (132,491) | 19,766        | (2,907) | 402,676         | (135,398) |
| Percentage of Increase (Decrease) in Net Position | 7 %          | (2%)      | 61%           | (8%)    | 7%              | (2%)      |

The Statement of Net Position reports all financial and capital resources of the School District. The statement presents the assets and liabilities in order of relative liquidity. Over 35% of the School District's assets and deferred inflows of resources are invested in capital assets (land, buildings, and equipment). 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 School District's long-term liabilities consist of a copier capital lease and early retirement benefits payable. The difference between the School District's assets and liabilities is its net position.



The restricted net position in governmental funds are funds specifically designated for special revenue funds (capital outlay and special education) unemployment benefits. The net position in business-type activities enterprise funds are restricted for food service and non credit fund that includes drivers education and preschool. Table A-2 below presents detailed information on how the change in net position was arrived at.

Table A-2  
Changes in Net Position  
Fiscal Year Ended June 30, 2018 and 2017

| Statement of Activities                                |              |           |               |         |                 |           |
|--|--------------|-----------|---------------|---------|-----------------|-----------|
|  | Governmental |           | Business-Type |         | Total           |           |
|  | Activities   |           | Activities    |         | School District |           |
|  | FY 2018      | FY 2017   | FY 2018       | FY 2017 | FY 2018         | FY 2017   |
| Revenues   |              |           |               |         |                 |           |
| Program Revenues:                                      |              |           |               |         |                 |           |
| Charges for services                                   | 54,694       | 41,911    | 104,252       | 104,733 | 158,946         | 146,644   |
| Operating grants and contributions                     | 97,823       | 72,161    | 58,997        | 63,330  | 156,820         | 135,491   |
| General Revenues                                       |              |           |               |         |                 |           |
| Taxes & other intermediate revenues                    | 2,497,726    | 2,452,203 | -             | -       | 2,497,726       | 2,452,203 |
| Revenue State Sources                                  | 314,801      | 109,268   | -             | -       | 314,801         | 109,268   |
| Revenue Federal Sources                                | 9,377        | 5,022     | -             | -       | 9,377           | 5,022     |
| Unrestricted Investment Earnings                       | 16,001       | 13,116    | 10,421        | 220     | 26,422          | 13,336    |
| Other General Revenues                                 | 57,328       | 60,386    | -             | -       | 57,328          | 60,386    |
| Total Revenues   | 3,047,750    | 2,754,067 | 173,600       | 168,283 | 3,221,350       | 2,922,350 |
| Percentage of Increase (Decrease)                      | 11%          | (4%)      | 3%            | 7%      | 10%             | (3%)      |
| Program Expenses                                       |              |           |               |         |                 |           |
| Instruction  | 1,518,978    | 1,659,328 | -             | -       | 1,518,978       | 1,659,328 |
| Support Services                                       | 976,871      | 1,060,711 | -             | -       | 976,871         | 1,060,711 |
| Non-program Charges/Community                          | 23,683       | 32,295    | -             | -       | 23,683          | 32,295    |
| Co-curricular Activities                               | 136,758      | 131,724   | -             | -       | 136,758         | 131,724   |
| Enterprise Activities                                  | -            | -         | 162,384       | 173,690 | 162,384         | 173,690   |
| Total Expenses   | 2,656,290    | 2,884,058 | 162,384       | 173,690 | 2,818,674       | 3,057,748 |
| Percentage of Increase (Decrease)                      | (8%)         | 9%        | (7%)          | 2%      | (8%)            | 9%        |
| Excess (Deficiency) Before Special Items and Transfers | 391,460      | (129,991) | 11,216        | (5,407) | 402,676         | (135,398) |
| Transfers  | (8,500)      | (2,500)   | 8,500         | 2,500   | -               | -         |
| Increase (Decrease) in Net Position                    | 382,910      | (132,491) | 19,766        | (2,907) | 402,676         | (135,398) |

The School District's total revenues (excluding special items) totaled \$3,221,350. This is an increase of around 10% in governmental activities. The revenues in the business activities increased by 3%. In the current year, approximately 78% of the School District's revenue comes from taxes, approximately 10% from state sources and the remainder from federal and local sources of revenue. Expenditures showed an overall decrease of 8%.

### **Financial Analysis of the School District's Funds**

Since net position shown on the government-wide statements does not reflect spendable resources, the truest picture of the School District's reserves comes from the fund balances on the fund financial statements.

On the fund financial statements General Fund reserves decreased by \$44,473 to a fund balance of \$760,516. This reserve balance is not considered excessive accumulation of reserve balance; however, there will be a penalty if the fund balance is not 30% or below by fiscal year 18-19. Currently, in this fiscal year we are at a fund balance of 18%. With the increase of salaries, increases in other expenses the general fund balance reduction should continue to be met.

Capital Outlay reserves increased by \$199,553 to a fund balance of \$1,270,631.

Special Education increased by \$31,912 to \$317,827. Reserves in special education are being allowed to increase significantly because of an increase in the numbers of students being serviced through individual education plans, including services to an increased number of pre-school students whose services will call for expansion as these children enter school and require more one-on-one instruction.

Pension Funds show a reserve of \$197,604, most of the revenues are expended to the General Fund to offset expenditures for employee retirement and early retirement benefits. This fund will be merging into the General Fund in FY 2020. After FY 2016, we were no longer be able to levy for this fund.

It is expected that reserves in all funds at June 30, 2018, together with anticipated revenues, are adequate to meet future obligations.

### **Budgetary Highlights**

Over the course of the year, the School Board made no revisions to the fiscal year budget, beside budget supplements and the reverse of the capital outlay flexibility.

### **Capital Asset Administration**

By the end of fiscal year 2018, the School District had invested \$2,588,181 in a broad range of capital assets including: land, buildings, various machinery and equipment in Governmental and Business-Type activities. (See Table A-3 below.) This amount represents a net increase of \$34,528 over last year and results from current year depreciation expense and net difference between additions and deletions of equipment.

Table A-3  
 Capital Assets  
 Fiscal Year ended June 30, 2018 and 2017

|                         | Governmental Activities |           | Business-Type Activities |         | Total School District |           |
|-------------------------|-------------------------|-----------|--------------------------|---------|-----------------------|-----------|
|                         | FY 2018                 | FY 2017   | FY 2018                  | FY 2017 | FY 2018               | FY 2017   |
| Land                    | 765                     | 765       | -                        | -       | 765                   | 765       |
| Buildings               | 2,117,690               | 2,116,156 | -                        | -       | 2,117,690             | 2,116,156 |
| Machinery and Equipment | 449,541                 | 422,703   | 20,185                   | 14,029  | 469,726               | 436,732   |
| Total Assets            | 2,567,996               | 2,539,624 | 20,185                   | 14,029  | 2,588,181             | 2,553,653 |

**Long-Term Debt**

As of June 30, 2018, the School District had total outstanding debt of \$34,286 an increase of \$986 from the previous year. The debt is comprised of early retirement payout obligations and a 5-year copier lease that was capitalized. Table A-4 details those transactions.

Table A-4  
 Long-Term Debt  
 Fiscal Year ended June 30, 2018 and 2017

|  | Governmental Activities |         | Business-Type Activities |         | Total Dollar Change | Total Dollar Change |
|--|-------------------------|---------|--------------------------|---------|---------------------|---------------------|
|  | FY 2018                 | FY 2017 | FY 2018                  | FY 2017 | FY 2018             | FY 2017             |
| Early Retirement                       | 25,000                  | 22,000  | -                        | -       | 3,000               | (30,000)            |
| Copier Capital Lease                   | 9,286                   | 11,300  | -                        | -       | (2,014)             | 11,300              |
| OPEB Obligation                        | -                       | -       | -                        | -       | -                   | -                   |
| SD SDBF Assessment                     | -                       | -       | -                        | -       | -                   | (70,610)            |
| Total Outstanding Debt and Obligations | 34,286                  | 33,300  | -                        | -       | 986                 | (89,310)            |

**Economic Factors and Next Year's Budgets and Rates**

The primary sources of revenue to the School District in its operating budget is received from the State of South Dakota on a new formula based on district size and targeted teacher/student ratio. As such, student census will continue to be a concern in years to come. The state aid formula for the current year (fiscal year 2018) is based on the fall 2017 fall enrollment, calculating a target teacher ratio to come up with a target teacher compensation plus overhead for other expenses, less the amount we will received for our pension levy. Long-term budget projections indicate that the School District will have positive net position in all funds for at least five years because of the healthy fund reserves. In the long range, and based on very preliminary data and pre-school screenings, class size is expected to level off at 11-20 students per grade or around 200 students during the next 6-10 years.

There is much uncertainty right now about the future of small schools in South Dakota. Much will depend on the impacting actions of the South Dakota Legislative and Department of Education. It will be interesting to see how much support the State Legislature will give education funding.

#### **Contacting the School 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 School District's accountability for the money it receives. Questions about the report or requests for additional information may be directed to the Business Office, 221 3<sup>rd</sup> Street, Mellette, SD 57461, phone 605-887-3467, Ext 114.

Northwestern Area School District 56-7  
Statement of Net Position  
June 30, 2018

|   | Primary Government         |                             |                     |
|---|----------------------------|-----------------------------|---------------------|
|   | Governmental<br>Activities | Business-Type<br>Activities | Total               |
| <b>Assets</b>                             |                            |                             |                     |
| Cash and cash equivalents                 | \$ 1,423,670               | \$ 2,618                    | \$ 1,426,288        |
| Investments                               | 1,453,016                  | -                           | 1,453,016           |
| Taxes receivable                          | 1,073,627                  | -                           | 1,073,627           |
| Accounts receivable                       | 146,235                    | -                           | 146,235             |
| Inventories                               | -                          | 11,901                      | 11,901              |
| Net pension asset                         | 6,427                      | 260                         | 6,687               |
| Capital assets:                           |                            |                             |                     |
| Land                                      | 765                        | -                           | 765                 |
| Other capital assets, net of depreciation | 2,567,231                  | 20,185                      | 2,587,416           |
|   | <u>6,670,971</u>           | <u>34,964</u>               | <u>6,705,935</u>    |
| <b>Deferred Outflows of Resources</b>     |                            |                             |                     |
| Pension related deferred outflows         | 708,482                    | 28,708                      | 737,190             |
|   | <u>\$ 7,379,453</u>        | <u>\$ 63,672</u>            | <u>\$ 7,443,125</u> |
| <b>Liabilities</b>                        |                            |                             |                     |
| Accounts payable                          | \$ 28,748                  | \$ 362                      | \$ 29,110           |
| Other current liabilities                 | 219,343                    | 6,044                       | 225,387             |
| Noncurrent liabilities:                   |                            |                             |                     |
| Due within one year                       | 10,463                     | -                           | 10,463              |
| Due in more than one year                 | 23,823                     | -                           | 23,823              |
|   | <u>282,377</u>             | <u>6,406</u>                | <u>288,783</u>      |
| <b>Deferred Inflows of Resources</b>      |                            |                             |                     |
| Pension related deferred inflows          | 123,566                    | 5,007                       | 128,573             |
| Taxes levied for future period            | 1,245,258                  | -                           | 1,245,258           |
|   | <u>1,368,824</u>           | <u>5,007</u>                | <u>1,373,831</u>    |
| <b>Net Position</b>                       |                            |                             |                     |
| Net investment in capital assets          | 2,558,710                  | 20,185                      | 2,578,895           |
| Restricted for:                           |                            |                             |                     |
| Capital outlay                            | 1,272,102                  | -                           | 1,272,102           |
| Special education                         | 318,531                    | -                           | 318,531             |
| Pension fund                              | 197,854                    | -                           | 197,854             |
| SDRS pension purposes                     | 591,343                    | 23,961                      | 615,304             |
| Unrestricted                              | 789,712                    | 8,113                       | 797,825             |
|   | <u>5,728,252</u>           | <u>52,259</u>               | <u>5,780,511</u>    |
|   | <u>\$ 7,379,453</u>        | <u>\$ 63,672</u>            | <u>\$ 7,443,125</u> |

Northwestern Area School District 56-7  
Statement of Activities  
Year Ended June 30, 2018

| Functions/Programs                   | Expenses            | Program Revenues        |  | Net (Expense) Revenue and<br>Changes in Net Position |   |                     |
|--------------------------------------|---------------------|-------------------------|--|--|---|---------------------|
|                                      |                     | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Governmental<br>Activities                           | Primary Government<br>Business-Type<br>Activities | Total               |
| <b>Primary Government</b>            |                     |                         |  |  |   |                     |
| Governmental activities:             |                     |                         |  |  |   |                     |
| Instruction                          | \$ 1,518,978        | \$ 24,694               | \$ 97,823                                | \$ (1,396,461)                                       | \$ -  | \$ (1,396,461)      |
| Support services                     | 976,871             | -                       | -  | (976,871)  | -   | (976,871)           |
| Nonprogrammed charges                | 23,683              | -                       | -  | (23,683)   | -   | (23,683)            |
| Cocurricular activities              | 136,758             | 30,000                  | -  | (106,758)  | -   | (106,758)           |
| Total governmental activities        | <u>2,656,290</u>    | <u>54,694</u>           | <u>97,823</u>                            | <u>(2,503,773)</u>                                   | <u>-</u>  | <u>(2,503,773)</u>  |
| Business-type activities:            |                     |                         |  |  |   |                     |
| Preschool                            | 20,004              | 15,036                  | -  | -  | (4,968)   | (4,968)             |
| Drivers education                    | 4,067               | 3,360                   | -  | -  | (707)   | (707)               |
| Food service                         | 138,313             | 85,856                  | 58,927                                   | -  | 6,470   | 6,470               |
| Total business-type activities       | <u>162,384</u>      | <u>104,252</u>          | <u>58,927</u>                            | <u>-</u>   | <u>795</u>  | <u>795</u>          |
| Total primary government             | <u>\$ 2,818,674</u> | <u>\$ 158,946</u>       | <u>\$ 156,750</u>                        | <u>(2,503,773)</u>                                   | <u>795</u>  | <u>(2,502,978)</u>  |
| <b>General Revenues</b>              |                     |                         |  |  |   |                     |
| Taxes:                               |                     |                         |  |  |   |                     |
| Property taxes                       |                     |                         |  | 2,401,085  | -   | 2,401,085           |
| Tax deed revenue                     |                     |                         |  | 59   | -   | 59                  |
| Gross receipts taxes                 |                     |                         |  | 96,582   | -   | 96,582              |
| Revenue from state sources:          |                     |                         |  |  |   |                     |
| State aid                            |                     |                         |  | 314,801  | -   | 314,801             |
| Revenue from federal sources         |                     |                         |  | 9,377  | -   | 9,377               |
| Unrestricted investment earnings     |                     |                         |  | 16,001   | -   | 16,001              |
| Other general revenues               |                     |                         |  | 57,328   | 10,421  | 67,749              |
| Transfers                            |                     |                         |  | (8,550)  | 8,550   | -                   |
| Total general revenues and transfers |                     |                         |  | <u>2,886,683</u>                                     | <u>18,971</u>                                     | <u>2,905,654</u>    |
| Change in Net Position               |                     |                         |  | <u>382,910</u>                                       | <u>19,766</u>                                     | <u>402,676</u>      |
| Net Position - Beginning             |                     |                         |  | <u>5,345,342</u>                                     | <u>32,493</u>                                     | <u>5,377,835</u>    |
| Net Position - Ending                |                     |                         |  | <u>\$ 5,728,252</u>                                  | <u>\$ 52,259</u>                                  | <u>\$ 5,780,511</u> |

Northwestern Area School District 56-7  
Balance Sheets – Governmental Funds  
June 30, 2018

|   | General<br>Fund     | Capital<br>Outlay<br>Fund | Special<br>Education<br>Fund | Pension<br>Fund   | Total<br>Governmental<br>Funds |
|---|---------------------|---------------------------|------------------------------|-------------------|--------------------------------|
| <b>Assets</b>   |                     |                           |                              |                   |                                |
| Cash and cash equivalents   | \$ 456,846          | \$ 405,677                | \$ 363,543                   | \$ 197,604        | \$ 1,423,670                   |
| Investments   | 553,016             | 900,000                   | -                            | -                 | 1,453,016                      |
| 110 Taxes receivable - current  | 640,679             | 274,392                   | 146,880                      | -                 | 1,061,951                      |
| 112 Taxes receivable - delinquent                                     | 9,251               | 1,471                     | 704                          | 250               | 11,676                         |
| 120 Accounts receivable   | -                   | 4,666                     | -                            | -                 | 4,666                          |
| 130 Due from agency funds   | 42                  | -                         | -                            | -                 | 42                             |
| 140 Due from government   | 96,582              | 44,945                    | -                            | -                 | 141,527                        |
|   | <u>\$ 1,756,416</u> | <u>\$ 1,631,151</u>       | <u>\$ 511,127</u>            | <u>\$ 197,854</u> | <u>\$ 4,096,548</u>            |
| <b>Liabilities, Deferred Inflows, and Fund Balances</b>               |                     |                           |                              |                   |                                |
| <b>Liabilities</b>  |                     |                           |                              |                   |                                |
| 402 Accounts payable  | \$ 18,533           | \$ 805                    | \$ 9,410                     | \$ -              | \$ 28,748                      |
| 404 Contracts payable   | 163,584             | -                         | 12,366                       | -                 | 175,950                        |
| 450 Payroll deductions and withholdings and employer matching payable | 40,277              | -                         | 3,116                        | -                 | 43,393                         |
| Total liabilities   | <u>222,394</u>      | <u>805</u>                | <u>24,892</u>                | <u>-</u>          | <u>248,091</u>                 |
| <b>Deferred Inflows of Resources</b>                                  |                     |                           |                              |                   |                                |
| 551 Unavailable revenue - delinquent property taxes                   | 9,251               | 1,471                     | 704                          | 250               | 11,676                         |
| 553 Taxes levied for future period                                    | 764,255             | 313,299                   | 167,704                      | -                 | 1,245,258                      |
| 559 Unavailable grant revenue   | -                   | 44,945                    | -                            | -                 | 44,945                         |
| Total deferred inflows of resources                                   | <u>773,506</u>      | <u>359,715</u>            | <u>168,408</u>               | <u>250</u>        | <u>1,301,879</u>               |
| <b>Fund Balances</b>  |                     |                           |                              |                   |                                |
| <b>Restricted:</b>  |                     |                           |                              |                   |                                |
| Capital outlay  | -                   | 1,270,631                 | -                            | -                 | 1,270,631                      |
| Special education   | -                   | -                         | 317,827                      | -                 | 317,827                        |
| Pension fund  | -                   | -                         | -                            | 197,604           | 197,604                        |
| <b>Assigned:</b>  |                     |                           |                              |                   |                                |
| Next year's budget  | 107,732             | -                         | -                            | -                 | 107,732                        |
| Unassigned  | 652,784             | -                         | -                            | -                 | 652,784                        |
| Total fund balances   | <u>760,516</u>      | <u>1,270,631</u>          | <u>317,827</u>               | <u>197,604</u>    | <u>2,546,578</u>               |
|   | <u>\$ 1,756,416</u> | <u>\$ 1,631,151</u>       | <u>\$ 511,127</u>            | <u>\$ 197,854</u> | <u>\$ 4,096,548</u>            |

Northwestern Area School District 56-7  
Reconciliation of the Governmental Funds Balance Sheets to the Statement of Net Position  
Year Ended June 30, 2018

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|   |                            |
|---|----------------------------|
| Total Fund Balances - Governmental Funds  | \$ 2,546,578               |
| Amounts Reported for Governmental Activities in the Statement<br>of Net Position are Different Because:   |                            |
| Capital assets used in governmental activities are not financial<br>resources and, therefore, are not reported in the funds.  | 2,567,996                  |
| Assets, such as delinquent taxes receivable, are not available<br>to pay for current period expenditures and are deferred in the funds.   | 11,676                     |
| Revenues from grants that are not available to pay for current<br>period expenditures are deferred in the funds.  | 44,945                     |
| Some liabilities are not due and payable in the current period<br>and, therefore, are not reported in the funds. Those liabilities<br>consist of:   |                            |
| Early retirement obligations  | (34,286)                   |
| Net pension liability (asset), pension related deferred inflows of resources,<br>and pension related deferred outflows of resources do not represent<br>available financial resources and, therefore, are not available financial<br>resources and, therefore, are not reported in the funds. | <u>591,343</u>             |
| Net Position - Governmental Funds   | <u><u>\$ 5,728,252</u></u> |



Northwestern Area School District 56-7  
 Statements of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
 Year Ended June 30, 2018

|  | General<br>Fund  | Capital<br>Outlay<br>Fund | Special<br>Education<br>Fund | Pension<br>Fund | Total<br>Governmental<br>Funds |
|--|------------------|---------------------------|------------------------------|-----------------|--------------------------------|
| <b>Revenues</b>  |                  |                           |                              |                 |                                |
| 1000 Revenue from local sources  |                  |                           |                              |                 |                                |
| 1100 Taxes:  |                  |                           |                              |                 |                                |
| 1110 Ad valorem taxes  | \$ 1,465,050     | \$ 609,345                | \$ 305,106                   | \$ 1            | \$ 2,379,502                   |
| 1120 Prior year's ad valorem taxes   | 10,046           | 3,687                     | 1,743                        | 415             | 15,891                         |
| 1130 Tax deed revenue  | 59               | -                         | -                            | -               | 59                             |
| 1140 Gross receipts taxes  | 96,582           | -                         | -                            | -               | 96,582                         |
| 1190 Penalties and interest on taxes   | 3,747            | 1,535                     | 654                          | 80              | 6,016                          |
| 1500 Earnings on investments and deposits  | 11,381           | 4,620                     | -                            | -               | 16,001                         |
| 1700 Cocurricular activities:  |                  |                           |                              |                 |                                |
| 1710 Admissions  | 22,525           | -                         | -                            | -               | 22,525                         |
| 1740 Rentals, cocurricular activities  | 371              | -                         | -                            | -               | 371                            |
| 1790 Other pupil activity income   | 7,104            | -                         | -                            | -               | 7,104                          |
| 1900 Other revenue from local sources:   |                  |                           |                              |                 |                                |
| 1920 Contributions and donations   | 3,055            | 14,350                    | -                            | -               | 17,405                         |
| 1960 Judgements  | 2,628            | 9,145                     | -                            | -               | 11,773                         |
| 1970 Charges for services  | 4,128            | -                         | 20,566                       | -               | 24,694                         |
| 1990 Other   | 11,840           | 725                       | -                            | -               | 12,565                         |
| 2000 Revenue from intermediate sources   |                  |                           |                              |                 |                                |
| 2100 County sources:   |                  |                           |                              |                 |                                |
| 2110 County apportionment  | 10,676           | -                         | -                            | -               | 10,676                         |
| 2120 Lease of county-owned land  | 4                | -                         | -                            | -               | 4                              |
| 2200 Revenue in lieu of taxes  | 1,620            | 787                       | 367                          | -               | 2,774                          |
| 3000 Revenue from state sources  |                  |                           |                              |                 |                                |
| 3100 Grants-in-aid:  |                  |                           |                              |                 |                                |
| 3110 Unrestricted grants-in-aid  | 251,198          | -                         | -                            | -               | 251,198                        |
| 3120 Restricted grants-in-aid  | -                | 18,658                    | -                            | -               | 18,658                         |
| 3900 Other   | 1,621            | -                         | -                            | -               | 1,621                          |
| 4000 Revenue from federal sources  |                  |                           |                              |                 |                                |
| 4100 Grants-in-aid:  |                  |                           |                              |                 |                                |
| 4130 Unrestricted grant-in-aid<br>received from federal government<br>through an intermediate source | 810              | -                         | -                            | -               | 810                            |
| 4150-4199 Restricted grants-in-aid<br>received from federal government<br>through the state          | 67,178           | 29,835                    | -                            | -               | 97,013                         |
| 4900 Other federal revenue   | 9,377            | -                         | -                            | -               | 9,377                          |
| Total revenues   | <u>1,981,000</u> | <u>692,687</u>            | <u>328,436</u>               | <u>496</u>      | <u>3,002,619</u>               |
| <b>Expenditures</b>  |                  |                           |                              |                 |                                |
| 1000 Instruction   |                  |                           |                              |                 |                                |
| 1100 Regular programs:   |                  |                           |                              |                 |                                |
| 1110 Elementary  | 414,166          | 13,307                    | -                            | 20,557          | 448,030                        |
| 1120 Middle/junior high  | 230,066          | 19,376                    | -                            | 11,083          | 260,525                        |
| 1130 High school   | 424,588          | 111,315                   | -                            | 20,279          | 556,182                        |
| 1200 Special programs:   |                  |                           |                              |                 |                                |
| 1220 Programs for special education  | -                | -                         | 267,373                      | -               | 267,373                        |
| 1270 Educationally deprived  | 72,213           | -                         | -                            | -               | 72,213                         |
| 2000 Support services  |                  |                           |                              |                 |                                |
| 2100 Pupils:   |                  |                           |                              |                 |                                |
| 2120 Guidance  | 35,498           | -                         | -                            | 1,620           | 37,118                         |
| 2130 Health  | 465              | -                         | -                            | -               | 465                            |
| 2140 Psychological   | -                | -                         | 5,468                        | -               | 5,468                          |
| 2150 Speech pathology  | -                | -                         | 12,837                       | -               | 12,837                         |

Northwestern Area School District 56-7  
 Statements of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
 Year Ended June 30, 2018

|   | General<br>Fund   | Capital<br>Outlay<br>Fund | Special<br>Education<br>Fund | Pension<br>Fund   | Total<br>Governmental<br>Funds |
|---|-------------------|---------------------------|------------------------------|-------------------|--------------------------------|
| 2200 Support services - instructional staff:    |                   |                           |                              |                   |                                |
| 2210 Improvement of instruction                 | 45,037            | -                         | -                            | 406               | 45,443                         |
| 2220 Educational media                          | 36,424            | 3,149                     | -                            | 1,930             | 41,503                         |
| 2300 Support services - general administration: |                   |                           |                              |                   |                                |
| 2310 Board of education                         | 75,038            | -                         | -                            | 1,550             | 76,588                         |
| 2320 Executive administration                   | 96,567            | -                         | -                            | 4,488             | 101,055                        |
| 2400 Support services - school administration:  |                   |                           |                              |                   |                                |
| 2410 Office of the principal                    | 95,022            | -                         | -                            | 3,959             | 98,981                         |
| 2490 Other support services                     | 440               | 1,000                     | -                            | -                 | 1,440                          |
| 2500 Support services - business:               |                   |                           |                              |                   |                                |
| 2520 Fiscal services                            | 86,225            | 3,000                     | -                            | 2,899             | 92,124                         |
| 2540 Operation and maintenance of plant         | 250,177           | 24,685                    | -                            | 4,234             | 279,096                        |
| 2550 Pupil transportation                       | 178,146           | -                         | -                            | 1,263             | 179,409                        |
| 2600 Support services - central:                |                   |                           |                              |                   |                                |
| 2640 Staff                                      | 489               | -                         | -                            | -                 | 489                            |
| 2700 Support services - special education:      |                   |                           |                              |                   |                                |
| 2710 Administrative costs                       | -                 | -                         | 10,846                       | -                 | 10,846                         |
| 4000 Nonprogrammed charges                      |                   |                           |                              |                   |                                |
| 4500 Early retirement payments                  | -                 | -                         | -                            | 23,683            | 23,683                         |
| 6000 Cocurricular activities                    |                   |                           |                              |                   |                                |
| 6100 Male activities                            | 31,735            | -                         | -                            | 822               | 32,557                         |
| 6200 Female activities                          | 30,107            | -                         | -                            | 749               | 30,856                         |
| 6900 Combined activities                        | 40,030            | 12,808                    | -                            | 150               | 52,988                         |
| 7500 Capital outlay                             | -                 | 179,494                   | -                            | -                 | 179,494                        |
| Total expenditures                              | <u>2,142,433</u>  | <u>368,134</u>            | <u>296,524</u>               | <u>99,672</u>     | <u>2,906,763</u>               |
| Excess of Revenues over (under) Expenditures    | <u>(161,433)</u>  | <u>324,553</u>            | <u>31,912</u>                | <u>(99,176)</u>   | <u>95,856</u>                  |
| Other Financing Sources (Uses)                  |                   |                           |                              |                   |                                |
| 5130 Sale of surplus property                   | 510               | -                         | -                            | -                 | 510                            |
| 5110 Transfers in                               | 125,000           | -                         | -                            | -                 | 125,000                        |
| 8110 Transfers out                              | <u>(8,550)</u>    | <u>(125,000)</u>          | <u>-</u>                     | <u>-</u>          | <u>(133,550)</u>               |
| Total other financing sources (uses)            | <u>116,960</u>    | <u>(125,000)</u>          | <u>-</u>                     | <u>-</u>          | <u>(8,040)</u>                 |
| Net Change in Fund Balances                     | (44,473)          | 199,553                   | 31,912                       | (99,176)          | 87,816                         |
| Fund Balance - Beginning                        | <u>804,989</u>    | <u>1,071,078</u>          | <u>285,915</u>               | <u>296,780</u>    | <u>2,458,762</u>               |
| Fund Balance - Ending                           | <u>\$ 760,516</u> | <u>\$ 1,270,631</u>       | <u>\$ 317,827</u>            | <u>\$ 197,604</u> | <u>\$ 2,546,578</u>            |

Northwestern Area School District 56-7  
 Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balances to the Government-  
 Wide Statement of Activities  
 Year Ended June 30, 2018

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|  |            |
|--|------------|
| Net Change in Fund Balances - Total Governmental Funds   | \$ 87,816  |
| Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:   |            |
| Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$179,494) exceeded depreciation (\$151,122) in the current period.  | 28,372     |
| Accounting for revenues in the funds' statements differs from the accounting in the government-wide in that the fund financial statements require the amounts to be "available." This amount reflects the application of both the application period and "availability criteria."  | 44,945     |
| Governmental funds do not reflect the change in early retirement debt, but the effects of this debt is reflected in the statement of activities.   | (3,000)    |
| The accrual of capital lease liabilities is not reflected in governmental funds, but the statement of activities reflects the change in this liability from one year to the next.  | 2,014      |
| In both the government-wide and fund financial statements, revenues from tax levies are applied to finance the budget of a particular period. Accounting for revenues from tax accruals in the fund's statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available." This amount reflects the application of both the application period and "availability criteria." | (324)      |
| Revenues and reductions of expenses related to pensions do not provide current financial resources and, therefore, are not reported in the funds.  | 223,087    |
| Change in Net Position of Governmental Activities  | \$ 382,910 |

Northwestern Area School District 56-7  
Statements of Net Position – Proprietary Funds  
June 30, 2018

|   | Enterprise           |                                     | Total            |
|---|----------------------|-------------------------------------|------------------|
|   | Food Service<br>Fund | Other Education<br>Programs<br>Fund |                  |
| <b>Assets</b>   |                      |                                     |                  |
| <b>Current Assets</b>   |                      |                                     |                  |
| Cash and cash equivalents   | \$ 2,241             | \$ 377                              | \$ 2,618         |
| 171 Inventory of stores purchased for resale                            | 3,522                | -                                   | 3,522            |
| 172 Inventory of donated food   | 8,379                | -                                   | 8,379            |
| Total current assets  | <u>14,142</u>        | <u>377</u>                          | <u>14,519</u>    |
| <b>Noncurrent Assets</b>  |                      |                                     |                  |
| 196 Net pension asset   | 171                  | 89                                  | 260              |
| 200 Capital assets:   |                      |                                     |                  |
| 204 Machinery and equipment - local funds                               | 66,813               | -                                   | 66,813           |
| 208 Accumulated depreciation - machinery<br>and equipment - local funds | <u>(46,628)</u>      | <u>-</u>                            | <u>(46,628)</u>  |
| Total noncurrent assets   | <u>20,356</u>        | <u>89</u>                           | <u>20,445</u>    |
| <b>Deferred Outflows of Resources</b>                                   |                      |                                     |                  |
| Pension related deferred outflows                                       | <u>18,903</u>        | <u>9,805</u>                        | <u>28,708</u>    |
|   | <u>\$ 53,401</u>     | <u>\$ 10,271</u>                    | <u>\$ 63,672</u> |
| <b>Liabilities</b>  |                      |                                     |                  |
| 402 Accounts payable  | \$ 362               | \$ -                                | \$ 362           |
| 474 Unearned revenue  | <u>6,044</u>         | <u>-</u>                            | <u>6,044</u>     |
| Total liabilities   | <u>6,406</u>         | <u>-</u>                            | <u>6,406</u>     |
| <b>Deferred Inflows of Resources</b>                                    |                      |                                     |                  |
| 554 Pension related deferred inflows                                    | <u>3,297</u>         | <u>1,710</u>                        | <u>5,007</u>     |
| <b>Net Position</b>   |                      |                                     |                  |
| 706 Net investment in capital assets                                    | 20,185               | -                                   | 20,185           |
| 707 Restricted for SDRS pension purposes                                | 15,777               | 8,184                               | 23,961           |
| 708 Unrestricted net position   | <u>7,736</u>         | <u>377</u>                          | <u>8,113</u>     |
| Total net position  | <u>43,698</u>        | <u>8,561</u>                        | <u>52,259</u>    |
|   | <u>\$ 53,401</u>     | <u>\$ 10,271</u>                    | <u>\$ 63,672</u> |

Northwestern Area School District 56-7  
 Statements of Revenues, Expenses, and Changes in Net Position – Proprietary Funds  
 Year Ended June 30, 2018

|                                    | Enterprise           |                                     | Total            |
|------------------------------------|----------------------|-------------------------------------|------------------|
|                                    | Food Service<br>Fund | Other Education<br>Programs<br>Fund |                  |
| Operating Revenues                 |                      |                                     |                  |
| Tuition and fees                   |                      |                                     |                  |
| 1310 Student tuition               | \$ -                 | \$ 18,396                           | \$ 18,396        |
| Sales                              |                      |                                     |                  |
| 1610 To pupils                     | 76,689               | -                                   | 76,689           |
| 1620 To adults                     | 9,167                | -                                   | 9,167            |
| Other                              |                      |                                     |                  |
| 2500 Pension revenue               | 6,356                | 4,065                               | 10,421           |
| Total operating revenues           | <u>92,212</u>        | <u>22,461</u>                       | <u>114,673</u>   |
| Operating Expenses                 |                      |                                     |                  |
| 1120 Middle/Junior high            |                      |                                     |                  |
| 100 Salaries                       | -                    | 20,799                              | 20,799           |
| 200 Employee benefits              | -                    | 2,881                               | 2,881            |
| 2560 Food service                  |                      |                                     |                  |
| 100 Salaries                       | 43,449               | -                                   | 43,449           |
| 200 Employee benefits              | 7,220                | -                                   | 7,220            |
| 300 Purchased services             | 5,349                | -                                   | 5,349            |
| 400 Supplies                       | 3,207                | -                                   | 3,207            |
| 461 Cost of sales - purchased food | 64,521               | -                                   | 64,521           |
| 462 Cost of sales - donated food   | 12,216               | -                                   | 12,216           |
| 910 Depreciation - local funds     | 2,351                | -                                   | 2,351            |
| 3500 Custody and care of children  |                      |                                     |                  |
| 400 Equipment and materials        | -                    | 391                                 | 391              |
| Total operating expenses           | <u>138,313</u>       | <u>24,071</u>                       | <u>162,384</u>   |
| Operating Loss                     | <u>(46,101)</u>      | <u>(1,610)</u>                      | <u>(47,711)</u>  |
| Nonoperating Revenues              |                      |                                     |                  |
| Local sources                      |                      |                                     |                  |
| State sources:                     |                      |                                     |                  |
| 3810 Cash reimbursements           | 508                  | -                                   | 508              |
| Federal sources:                   |                      |                                     |                  |
| 4810 Cash reimbursements           | 46,203               | -                                   | 46,203           |
| 4820 Donated food                  | 12,216               | -                                   | 12,216           |
| Total nonoperating revenues        | <u>58,927</u>        | <u>-</u>                            | <u>58,927</u>    |
| Income (Loss) Before Transfers     | 12,826               | (1,610)                             | 11,216           |
| 5110 Transfers in                  | <u>3,200</u>         | <u>5,350</u>                        | <u>8,550</u>     |
| Change in Net Position             | <u>16,026</u>        | <u>3,740</u>                        | <u>19,766</u>    |
| Net Position - Beginning           | <u>27,672</u>        | <u>4,821</u>                        | <u>32,493</u>    |
| Net Position - Ending              | <u>\$ 43,698</u>     | <u>\$ 8,561</u>                     | <u>\$ 52,259</u> |

Northwestern Area School District 56-7  
Statements of Cash Flows – Proprietary Funds  
Year Ended June 30, 2018

|   | Food Service<br>Fund | Enterprise<br>Other Education<br>Programs<br>Fund | Total              |
|---|----------------------|---|--------------------|
| Cash Flows from (used for) Operating Activities               |                      |   |                    |
| Receipts from customers                                       | \$ 86,045            | \$ 18,396   | \$ 104,441         |
| Payments to suppliers   | (79,059)             | (391)   | (79,450)           |
| Payments to employees   | (50,849)             | (23,680)  | (74,529)           |
| Net Cash used for Operating Activities                        | <u>(43,863)</u>      | <u>(5,675)</u>                                    | <u>(49,538)</u>    |
| Cash Flows from Noncapital Financing Activities               |                      |   |                    |
| Transfers in  | 3,200                | 5,350   | 8,550              |
| Operating subsidies   | 46,711               | -   | 46,711             |
| Net Cash from Noncapital Financing Activities                 | <u>49,911</u>        | <u>5,350</u>                                      | <u>55,261</u>      |
| Cash Flows used for Capital and Related Financings Activities |                      |   |                    |
| Purchase of Capital Assets                                    | (8,507)              | -   | (8,507)            |
| Net Cash used for Capital and Related Financings Activities   | <u>(8,507)</u>       | <u>-</u>  | <u>(8,507)</u>     |
| Change in Cash and Cash Equivalents                           | (2,459)              | (325)   | (2,784)            |
| Cash and Cash Equivalents Beginning of Year                   | 4,700                | 702   | 5,402              |
| Cash and Cash Equivalents End of Year                         | <u>\$ 2,241</u>      | <u>\$ 377</u>                                     | <u>\$ 2,618</u>    |
| Reconciliation of Operating Loss to                           |                      |   |                    |
| Net Cash used for Operating Activities:                       |                      |   |                    |
| Operating loss  | \$ (46,101)          | \$ (1,610)  | \$ (47,711)        |
| Adjustments to reconcile operating loss to                    |                      |   |                    |
| net cash used for operating activities:                       |                      |   |                    |
| Depreciation expense  | 2,351                | -   | 2,351              |
| Value of donated commodities used                             | 12,216               | -   | 12,216             |
| Change in assets and liabilities:                             |                      |   |                    |
| Inventories   | (6,344)              | -   | (6,344)            |
| Net pension asset/liability                                   | (6,365)              | (2,848)   | (9,213)            |
| Pension deferred inflows                                      | 3,297                | 1,710   | 5,007              |
| Pension deferred outflows                                     | (3,468)              | (2,927)   | (6,395)            |
| Accounts payable  | 362                  | -   | 362                |
| Unearned revenue  | 189                  | -   | 189                |
| Net Cash used for Operating Activities                        | <u>\$ (43,863)</u>   | <u>\$ (5,675)</u>                                 | <u>\$ (49,538)</u> |
| Noncash Investing, Capital, and Financing Activities          |                      |   |                    |
| Value of Commodities Received                                 | \$ 12,216            | \$ -  | \$ 12,216          |

Northwestern Area School District 56-7  
 Statements of Fiduciary Net Position – Fiduciary Funds  
 June 30, 2018

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|                                | Private-Purpose<br>Trust Funds | Agency<br>Funds |
|--------------------------------|--------------------------------|-----------------|
| <b>Assets</b>                  |                                |                 |
| Cash and cash equivalents      | \$ 1,825                       | \$ 65,680       |
| Investments                    | 78,860                         | -               |
| Other assets                   | -                              | 3,198           |
|                                | \$ 80,685                      | \$ 68,878       |
| <b>Liabilities</b>             |                                |                 |
| Amounts held for others        | \$ -                           | \$ 68,836       |
| Due to general fund            | -                              | 42              |
| Total liabilities              | -                              | 68,878          |
| <b>Net Position</b>            |                                |                 |
| Held in trust for scholarships | 80,685                         | -               |
|                                | \$ 80,685                      | \$ 68,878       |

Northwestern Area School District 56-7  
Statement of Changes in Fiduciary Net Position – Fiduciary Funds  
Year Ended June 30, 2018

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|                             | <u>Private-Purpose<br/>Trust Funds</u> |
|-----------------------------|--|
| Additions                   |  |
| Contributions and donations | <u>\$ 2,223</u>                        |
| Total additions             | <u>2,223</u>                           |
| Deductions                  |  |
| Scholarships awarded        | <u>4,080</u>                           |
| Total deductions            | <u>4,080</u>                           |
| Change in Net Position      | (1,857)                                |
| Net Position - Beginning    | <u>82,542</u>                          |
| Net Position - Ending       | <u><u>\$ 80,685</u></u>                |



## **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Northwestern Area School District 56-7 conform to generally accepted accounting principles applicable to government entities in the United States of America.

### **Financial Reporting Entity**

The reporting entity of Northwestern Area School District 56-7 (the School District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the School District's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District. The School District has no component units.

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

### **Basis of Presentation**

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

### **Government-Wide Financial Statements**

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

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

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

### **Fund Financial Statements**

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

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

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

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

### **Governmental Funds**

**General Fund** - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the School District, excluding capital outlay fund, special education fund, and pension fund expenditures. The General Fund is always a major fund.

**Special Revenue Fund Types** - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The capital outlay, special education and pension funds are the special revenue funds maintained by the School District.

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

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

Pension Fund - A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the School 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 considered a major fund.

### **Proprietary Funds**

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

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

Other Education Programs Fund – A fund used to record financial transactions related to other enterprise fund operations. This fund is financed by user charges. 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 other trust arrangements under which principal and income benefit individuals, private organizations or other governments. The School District maintains one private-purpose trust fund for scholarships.

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

### **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 fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

## **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 fund types and similar fiduciary funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the School District, the length of that cycle is 60 days. Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary fund and similar trust fund types 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.

## **Inventory**

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

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

## **Interfund Eliminations and Reclassifications**

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

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

Fund Financial Statements - Noncurrent portions of long-term interfund receivables are reported as Nonspendable Fund Balance to the extent that the proceeds from the collection of those receivables are not Restricted, Committed, or Assigned. Current portions of interfund receivables are considered “available spendable resources” and are reported in the appropriate fund balance category.

### Capital Assets

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

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

### Government-Wide Statements

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

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

The total June 30, 2018 balance of capital assets for governmental activities and business-type activities are all valued at original cost.

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

|                         | Capitalization<br>Threshold | Depreciation<br>Method | Estimated<br>Useful Life |
|-------------------------|-----------------------------|------------------------|--------------------------|
| Land*                   | \$ 1,000                    | N/A                    | N/A                      |
| Buildings               | 25,000                      | Straight-Line          | 50 years                 |
| Machinery and equipment | 5,000                       | Straight-Line          | 5-10 years               |
| Food service equipment  | 300                         | Straight-Line          | 12 years                 |

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

## **Fund Financial Statements**

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

## **Long-Term Liabilities**

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of capital lease obligations and early retirements benefits.

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

## **Program Revenues**

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

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

## **Property Taxes**

Property taxes are levied on or before each October 1, attached as an enforceable lien on property as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. Approximately 50% is considered to be applied to finance the budget of the current fiscal year, and the remaining 50% is considered to be applied to finance the budget for the subsequent year. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and, therefore, are not susceptible to accrual has been reported as deferred inflows 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."

### **Proprietary Funds Revenue and Expense Classifications**

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

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

### **Deposits and Investments**

The School District pools its cash resources for deposit purposes. For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist primarily of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6.

### **Equity Classifications**

#### **Government-Wide Statements**

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

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

## **Fund Financial Statements**

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

## **Application of Net Position**

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

## **Fund Balance Classification Policies and Procedures**

The School District classifies governmental fund balances as follows:

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

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

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

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

| <u>Major Special Revenue Fund</u> | <u>Revenue Source</u>                |
|-----------------------------------|--------------------------------------|
| Capital Outlay                    | Property Taxes and Grants            |
| Special Education                 | Property Taxes, Grants and State Aid |
| Pension                           | Property Taxes                       |



## **Pensions**

For purposes of measuring the net pension liability (asset), deferred outflows 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's fiduciary net position have been determined on the same basis as they are reported by SDRS. School District contributions and net pension liability (asset) are recognized on an accrual basis of accounting. Investments are reported at fair value.

## **Deferred Inflows of Resources**

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

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

## **Rounding**

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

## **Note 2 - Deposits and Investments Credit Risk, Concentrations of Credit Risk and Interest Rate Risk**

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

## Deposits

The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota. As of June 30, 2018, the financial institution that holds the School District's deposits was properly collateralized.

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

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

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

|   | Bank Balance |
|---|--------------|
| Insured (FDIC/NCUA)   | \$ 750,000   |
| Uninsured, collateral jointly held by State's/School District's agent in the name of the State and the pledging financial institution | 1,701,283    |
|   | \$ 2,451,283 |
| The School District's carrying amount of deposits at June 30, 2018 was:   | \$ 2,426,341 |
| Reconciliation of deposits to government-wide statement of net position:  |              |
| Cash and cash equivalents   | \$ 1,426,288 |
| Certificates of deposit reported as investments on statement of net position  | 1,453,016    |
| Add: Fiduciary funds cash and investments (not included in government-wide statement of net position)                                 | 146,365      |
| Less: SD FIT GCR included in cash and cash equivalents  | (599,328)    |
| Total reconciled deposits   | \$ 2,426,341 |

## 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. The School District holds certificates of deposits with financial institutions as investments. Those investments are held at amortized cost.

As of June 30, 2018, the School District had \$599,328 which was held in the South Dakota Public Fund Investment Trust Government Cash Reserve Fund (SD FIT GCR). SD FIT GCR is an unrated external investment pool created for South Dakota local government investing. It is regulated by a nine member board with representation from municipalities, school districts and counties.

The net asset value of the SD FIT GCR is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis. Since the School District has ready access to the cash, it is reported as cash and cash equivalents.

**Custodial Credit Risk Investments:** The risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have an investment policy for custodial risk.

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

**Credit Risk:** State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices. As of June 30, 2018, the School District's investment in the SD FIT GCR was unrated.

**Concentration of Credit Risk:** The School District places no limit on the amount that may be invested in any one issuer. One hundred percent of the School District's investments are in the SD FIT GCR.

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

**Valued at Net Asset Value**

|            | 2018              |                         |                         |                             |
|------------|-------------------|-------------------------|-------------------------|-----------------------------|
|            | Amortized<br>Cost | Unfunded<br>Commitments | Redemption<br>Frequency | Redemption<br>Notice Period |
| SD FIT GCR | \$ 599,328        | \$ -                    | Daily                   | Daily                       |

The SD FIT Government Cash Reserve Fund's objective is to maintain a high degree of liquidity and safety of principal through investment in short-term securities as permitted for South Dakota public agencies under South Dakota law. The fund invests public funds in obligations of the U.S. Government, its agencies and instrumentalities, repurchase agreements provided that the underlying collateral consists of obligations of the U.S. Government, its agencies and instrumentalities, and that the fund's custodian takes delivery of the collateral either directly or through an authorized custodian.

**Note 3 - Changes in Capital Assets**

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

| Primary Government<br>Governmental Activities | Balance<br>07/01/17 | Increases | Decreases | Balance<br>06/30/18 |
|---|---------------------|-----------|-----------|---------------------|
| Capital assets not being depreciated:         |                     |           |           |                     |
| Land  | \$ 765              | \$ -      | \$ -      | \$ 765              |
| Total capital assets not being depreciated    | 765                 | -         | -         | 765                 |
| Capital assets being depreciated:             |                     |           |           |                     |
| Buildings                                     | 3,873,527           | 87,621    | -         | 3,961,148           |
| Machinery and equipment                       | 1,027,769           | 91,873    | -         | 1,119,642           |
| Total capital assets being depreciated        | 4,901,296           | 179,494   | -         | 5,080,790           |
| Less accumulated depreciation for:            |                     |           |           |                     |
| Buildings                                     | 1,757,371           | 86,087    | -         | 1,843,458           |
| Machinery and equipment                       | 605,066             | 65,035    | -         | 670,101             |
| Total accumulated depreciation                | 2,362,437           | 151,122   | -         | 2,513,559           |
| Total capital assets being depreciated, net   | 2,538,859           | 28,372    | -         | 2,567,231           |
| Governmental activity capital assets, net     | \$ 2,539,624        | \$ 28,372 | \$ -      | \$ 2,567,996        |

Depreciation expense was charged to functions as follows:

|  |  |  |            |
|--|--|--|------------|
| Governmental activities:                             |  |  |            |
| Instruction  |  |  | \$ 71,481  |
| Support services                                     |  |  | 54,867     |
| Cocurricular activities                              |  |  | 24,774     |
| Total depreciation expense - governmental activities |  |  | \$ 151,122 |

| Business-Type Activities                     | Balance<br>07/01/17 | Increases | Decreases | Balance<br>06/30/18 |
|--|---------------------|-----------|-----------|---------------------|
| Capital assets being depreciated:            |                     |           |           |                     |
| Machinery and equipment                      | \$ 58,306           | \$ 8,507  | \$ -      | \$ 66,813           |
| Total capital assets being depreciated       | 58,306              | 8,507     | -         | 66,813              |
| Less accumulated depreciation for:           |                     |           |           |                     |
| Machinery and equipment                      | 44,277              | 2,351     | -         | 46,628              |
| Total accumulated depreciation               | 44,277              | 2,351     | -         | 46,628              |
| Total capital assets being depreciated, net  | 14,029              | 6,156     | -         | 20,185              |
| Business-type activities capital assets, net | \$ 14,029           | \$ 6,156  | \$ -      | \$ 20,185           |

Depreciation expense was charged to functions as follows:

|   |  |  |          |
|---|--|--|----------|
| Business-type activities:                             |  |  |          |
| Food services   |  |  | \$ 2,351 |
| Total depreciation expense - business-type activities |  |  | \$ 2,351 |

**Note 4 - Noncurrent Liabilities**

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

|                               | Beginning<br>Balance | Additions        | Decreases        | Ending<br>Balance | Due Within<br>One Year |
|-------------------------------|----------------------|------------------|------------------|-------------------|------------------------|
| Primary Government            |                      |                  |                  |                   |                        |
| Governmental activities:      |                      |                  |                  |                   |                        |
| Copier capital lease          | \$ 11,300            | \$ -             | \$ 2,014         | \$ 9,286          | \$ 2,130               |
| Early retirement benefits     | 22,000               | 25,000           | 22,000           | 25,000            | 8,333                  |
| Total governmental activities | 33,300               | 25,000           | 24,014           | 34,286            | 10,463                 |
| Total primary government      | <u>\$ 33,300</u>     | <u>\$ 25,000</u> | <u>\$ 24,014</u> | <u>\$ 34,286</u>  | <u>\$ 10,463</u>       |

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

| Year Ending<br>June 30: | Copier capital lease |                 | Retirement<br>Benefits | Total            |                 |
|-------------------------|----------------------|-----------------|------------------------|------------------|-----------------|
|                         | Principal            | Interest        | Principal              | Principal        | Interest        |
| 2019                    | \$ 2,130             | \$ 467          | \$ 8,333               | \$ 10,463        | \$ 467          |
| 2020                    | 2,253                | 344             | 8,333                  | 2,253            | 344             |
| 2021                    | 2,383                | 214             | 8,334                  | 2,383            | 214             |
| 2022                    | 2,520                | 77              | -                      | 2,520            | 77              |
|                         | <u>\$ 9,286</u>      | <u>\$ 1,102</u> | <u>\$ 25,000</u>       | <u>\$ 17,619</u> | <u>\$ 1,102</u> |

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

|   |  |                  |
|---|--|------------------|
| Financing (Capital Acquisition) Leases  |  |                  |
| Century Business Leasing copier lease, matures July 2022, 5.609% interest, monthly payments of \$216 paid by the Capital Outlay Fund. |  | \$ 9,286         |
| Early Retirement  |  |                  |
| Requires annual payments of \$8,333 depending on the individual from the pension fund, final payment due in fiscal year 2021.         |  | 25,000           |
|   |  | <u>\$ 34,286</u> |

**Note 5 - Restricted Net Position**

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

| Fund                        | Restricted By | Amount              |
|-----------------------------|---------------|---------------------|
| Capital Outlay              | Law           | \$ 1,272,102        |
| Special Education           | Law           | 318,531             |
| Pension                     | Law           | 197,854             |
| SDRS Pension Purposes       | Law           | 615,304             |
| Total restricted net assets |               | <u>\$ 2,403,791</u> |

**Note 6 - Interfund Transfers**

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

| Transfers From      | Transfers To      |                               |                   | Total    |
|---------------------|-------------------|-------------------------------|-------------------|----------|
|                     | Food Service Fund | Other Education Programs Fund | General Fund Fund |          |
| Major Funds:        |                   |                               |                   |          |
| General Fund        | \$ 3,200          | \$ 5,350                      | \$ -              | \$ 8,550 |
| Capital Outlay Fund | -                 | -                             | 125,000           | 125,000  |

SDCL 13-16-26 gives the School Board the authority to transfer all or part of any surplus of any School District fund, except the capital outlay fund provided by SDCL 13-16-6 to 13-16-9, inclusive, and the special education fund provided by SDCL 13-37-16 may be transferred to any other School District fund. The interfund transfers above are not a violation of the statutory restrictions on interfund transfers. The transfers above were made to supplement operations.

**Note 7 - Early Retirement**

Each teacher who accepts retirement after the age of 55 and prior to the age of 62 with at least 20 years of service in the School District will be given \$25,000 incentive pay, and can be paid out over a three, four, or five year period. As of June 30, 2018, there was one employee remaining approved to receive the benefits.

**Note 8 - Joint Ventures**

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

**North Central Special Education Cooperative**

The members of the Co-op having equal participation are as follows:

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

The Co-op's Governing Board is composed of one representative from each member school district, who is the superintendent of the member school district. The Board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

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

Separate financial statements for this joint venture are available from North Central Special Education Cooperative.

At June 30, 2018, this joint venture had total assets and fund equity of \$318,905.

## **Note 9 - Risk Management**

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

### **Employee Health Insurance**

The School District joined the South Dakota School District Health Benefits Fund (SDSDBF). This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides for deductibles ranging from \$1,500 to \$2,500, and \$3,000 to \$5,000 for single and family policies, respectively, and 20% coinsurance.

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

### **Liability Insurance**

The School District joined the Associated School Boards of South Dakota Property and Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The School District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the School District. The School District pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the ASBSD-PLF member, based on their exposure or type of coverage. The School District pays an annual premium to the pool to provide coverage for commercial general liability, automobile liability, and school board legal liability coverage.

The agreement with ASBSD-PLF provides that the above coverage's will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The school district carries no deductible for the commercial general liability and automobile liability coverages, and \$5,000 defense only claims and \$10,000 school board legal liability claims deductible for the school board legal liability coverage.

The School 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 during the past three years.

### **Worker's Compensation**

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

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

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

### **Unemployment Benefits**

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

During the year ended June 30, 2018, no claims for unemployment benefits were paid. At June 30, 2018, no claim had been filed for unemployment benefits and none are anticipated in the next fiscal year.

### **Note 10 - Postemployment Healthcare Plan**

Effective July 1, 2016, current employees were no longer allowed to stay on the School District's healthcare plan at retirement. Retirees on the plan prior to June 30, 2016 are eligible to stay on the School District's healthcare plan until age 65. The OPEB liability as of June 30, 2018 for retirees already on the plan was evaluated and determined to not be material to the Statement of Net Position and therefore no liability, deferred inflows, or deferred outflows were recorded.

### **Note 11 - Litigation**

At June 30, 2018, the School District was not involved in any litigation.



## Note 12 - Pension Plan

### Plan Information

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

### Benefits Provided

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

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

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

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

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

All benefits except those depending on the member's accumulated contributions are annually increased by the cost-of-living adjustment.

**Contributions**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2018, 2017, and 2016 were \$91,782, \$89,834 and \$86,371 respectively, equal to the required contributions each year.

**Pension Liabilities (Assets), Pension Expense (Reduction of Pension Expense), 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 shares of the components of the net pension asset of SDRS, for the School District as of June 30, 2018 are as follows:

|   |                              |
|---|------------------------------|
| Proportionate share of net pension liability                            | \$ 8,573,828                 |
| Less proportionate share of net pension restricted for pension benefits | <u>8,580,515</u>             |
| <br>Proportionate share of net pension liability (asset)                | <br><u><u>\$ (6,687)</u></u> |

At June 30, 2018, the School District reported a liability (asset) of (\$6,687) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the School District's proportion was 0.07369020% which is an increase (decrease) of (0.0020141%) from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized a reduction of pension expense of (\$141,908). At June 30, 2018 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | Deferred<br>Outflows of<br>Resources | Inflows of<br>Resources  |
|--|--------------------------------------|--------------------------|
| Difference between expected and actual experience  | \$ 107,152                           | \$ -                     |
| Changes in assumption  | 519,240                              | -                        |
| Net difference between projected and actual earnings on<br>pension plan investments                                    | -                                    | 128,573                  |
| Changes in proportion and difference between School District<br>contributions and proportionate share of contributions | 19,016                               | -                        |
| School District contributions subsequent to the measurement date   | <u>91,782</u>                        | <u>-</u>                 |
| <b>Total</b>   | <u><u>\$ 737,190</u></u>             | <u><u>\$ 128,573</u></u> |

The \$91,782 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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<br>June 30: | Amount     |
|------------------------|------------|
| 2019                   | \$ 144,078 |
| 2020                   | 233,176    |
| 2021                   | 169,372    |
| 2022                   | (29,791)   |
|                        | \$ 516,835 |

### Actuarial Assumptions

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

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

Mortality rates were based on 97% of the RP-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 the 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               | 2.0%                     | 0.7%  |
|                    | 100.0%                   |   |

### Discount Rate

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

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

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

|  | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
|--|--------------------|------------------------------|--------------------|
| School District's proportionate share of the net pension liability (asset) | \$ 1,224,807       | \$ (6,687)                   | \$ (1,009,525)     |

### Pension Plan Fiduciary Net Position

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

### Note 13 - Receivables and Payables

The School District does not aggregate receivables and payables in the financial statements. The amount recorded as due from other governments consists of \$50,708 for utility tax revenues in the general fund from the State along with \$44,945 for grant revenue in the capital outlay fund. The general fund also has accounts receivable from the County for utility tax revenues in the amount of \$45,874. The School District expects all receivables to be collected within one year. Based on the nature of the receivables, no allowances for estimated uncollectible have been established.



Required Supplementary Information  
June 30, 2018

**Northwestern Area School District 56-7**

Northwestern Area School District 56-7  
 Budgetary Comparison Schedule – General Fund  
 Year Ended June 30, 2018

|  | Budgeted Amounts |                  | Actual Amounts<br>(Budgetary Basis) | Variance with<br>Final Budget |
|--|------------------|------------------|-------------------------------------|-------------------------------|
|  | Original         | Final            |                                     | Positive<br>(Negative)        |
| <b>Revenues</b>  |                  |                  |                                     |                               |
| 1000 Revenue from local sources  |                  |                  |                                     |                               |
| 1100 Taxes:  |                  |                  |                                     |                               |
| 1110 Ad valorem taxes  | \$ 1,424,016     | \$ 1,424,016     | \$ 1,465,050                        | \$ 41,034                     |
| 1120 Prior year's ad valorem taxes   | 5,000            | 5,000            | 10,046                              | 5,046                         |
| 1130 Tax deed revenue  | -                | -                | 59                                  | 59                            |
| 1140 Gross receipts taxes  | 80,000           | 80,000           | 96,582                              | 16,582                        |
| 1190 Penalties and interest on taxes   | 4,500            | 4,500            | 3,747                               | (753)                         |
| 1500 Earnings on investments and deposits  | 10,000           | 10,000           | 11,381                              | 1,381                         |
| 1700 Cocurricular activities:  |                  |                  |                                     |                               |
| 1710 Admissions  | 19,400           | 19,400           | 22,525                              | 3,125                         |
| 1740 Rentals   | 700              | 700              | 371                                 | (329)                         |
| 1790 Other pupil activity income   | 3,800            | 3,800            | 7,104                               | 3,304                         |
| 1900 Other revenue from local sources:   |                  |                  |                                     |                               |
| 1920 Contributions and donations   | 1,800            | 1,800            | 3,055                               | 1,255                         |
| 1960 Judgements  | -                | -                | 2,628                               | 2,628                         |
| 1970 Charges for services  | 4,000            | 4,000            | 4,128                               | 128                           |
| 1990 Other   | 10,900           | 10,900           | 11,840                              | 940                           |
| 2000 Revenue from intermediate sources   |                  |                  |                                     |                               |
| 2100 County sources:   |                  |                  |                                     |                               |
| 2110 County apportionment  | 15,000           | 15,000           | 10,676                              | (4,324)                       |
| 2120 Lease of county-owned land  | -                | -                | 4                                   | 4                             |
| 2200 Revenue in lieu of taxes  | -                | -                | 1,620                               | 1,620                         |
| 3000 Revenue from state sources  |                  |                  |                                     |                               |
| 3100 Grants-in-aid:  |                  |                  |                                     |                               |
| 3110 Unrestricted grants-in-aid  | 301,366          | 301,366          | 251,198                             | (50,168)                      |
| 3900 Other   | -                | -                | 1,621                               | 1,621                         |
| 4000 Revenue from federal sources  |                  |                  |                                     |                               |
| 4100 Grants-in-aid:  |                  |                  |                                     |                               |
| 4130 Unrestricted grant-in-aid<br>received from federal government<br>through an intermediate source | -                | -                | 810                                 | 810                           |
| 4150-4199 Restricted grants-in-aid received<br>from federal government through the State             | 67,189           | 67,189           | 67,178                              | (11)                          |
| 4900 Other federal revenue   | 4,000            | 4,000            | 9,377                               | 5,377                         |
| Total revenues   | <u>1,951,671</u> | <u>1,951,671</u> | <u>1,981,000</u>                    | <u>29,329</u>                 |

Northwestern Area School District 56-7  
 Budgetary Comparison Schedule – General Fund  
 Year Ended June 30, 2018

|   | Budgeted Amounts  |                   | Actual Amounts<br>(Budgetary Basis) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------|-------------------|-------------------------------------|---|
|   | Original          | Final             |                                     |   |
| Expenditures                                    |                   |                   |                                     |   |
| 1000 Instruction                                |                   |                   |                                     |   |
| 1100 Regular programs:                          |                   |                   |                                     |   |
| 1110 Elementary                                 | 444,950           | 444,950           | 414,166                             | 30,784  |
| 1120 Jr High School                             | 249,800           | 249,800           | 230,066                             | 19,734  |
| 1130 High School                                | 445,000           | 445,000           | 424,588                             | 20,412  |
| 1200 Special programs:                          |                   |                   |                                     |   |
| 1270 Educationally deprived                     | 75,000            | 75,000            | 72,213                              | 2,787   |
| 2000 Support services                           |                   |                   |                                     |   |
| 2100 Pupils:                                    |                   |                   |                                     |   |
| 2120 Guidance                                   | 36,550            | 36,550            | 35,498                              | 1,052   |
| 2130 Health                                     | 500               | 500               | 465                                 | 35  |
| 2200 Support services - instructional staff:    |                   |                   |                                     |   |
| 2210 Improvement of instruction                 | 63,250            | 63,250            | 45,037                              | 18,213  |
| 2220 Educational media                          | 42,650            | 42,650            | 36,424                              | 6,226   |
| 2300 Support services - general administration: |                   |                   |                                     |   |
| 2310 Board of education                         | 84,175            | 84,175            | 75,038                              | 9,137   |
| 2320 Executive administration                   | 99,410            | 99,410            | 96,567                              | 2,843   |
| 2400 Support services - school administration:  |                   |                   |                                     |   |
| 2410 Office of the principal                    | 95,200            | 95,200            | 95,022                              | 178   |
| 2490 Other support services                     | -                 | -                 | 440                                 | (440)   |
| 2500 Support services - business:               |                   |                   |                                     |   |
| 2520 Fiscal services                            | 91,550            | 91,550            | 86,225                              | 5,325   |
| 2540 Operation and maintenance of plant         | 253,600           | 253,600           | 250,177                             | 3,423   |
| 2550 Pupil transportation                       | 207,250           | 207,250           | 178,146                             | 29,104  |
| 2600 Support services - central:                |                   |                   |                                     |   |
| 2640 Staff                                      | 400               | 500               | 489                                 | 11  |
| 3000 Community services:                        |                   |                   |                                     |   |
| 3900 Other non-program                          | 500               | 500               | -                                   | 500   |
| 6000 Cocurricular activities                    |                   |                   |                                     |   |
| 6100 Male activities                            | 34,045            | 34,045            | 31,735                              | 2,310   |
| 6200 Female activities                          | 32,275            | 32,275            | 30,107                              | 2,168   |
| 6900 Combined activities                        | 31,400            | 40,100            | 40,030                              | 70  |
| Total expenditures                              | <u>2,287,505</u>  | <u>2,296,305</u>  | <u>2,142,433</u>                    | <u>153,872</u>  |
| Excess of Revenues over (under) Expenditures    | <u>(335,834)</u>  | <u>(344,634)</u>  | <u>(161,433)</u>                    | <u>183,201</u>  |
| Other Financing Sources (Uses)                  |                   |                   |                                     |   |
| 5130 Sale of surplus property                   | -                 | -                 | 510                                 | 510   |
| 5110 Transfers in                               | -                 | -                 | 125,000                             | 125,000   |
| 8110 Transfers out                              | <u>(47,800)</u>   | <u>(47,800)</u>   | <u>(8,550)</u>                      | <u>39,250</u>   |
| Total other financing sources (uses)            | <u>(47,800)</u>   | <u>(47,800)</u>   | <u>116,960</u>                      | <u>164,760</u>  |
| Net Change in Fund Balances                     | (383,634)         | (392,434)         | (44,473)                            | 347,961   |
| Fund Balance - Beginning                        | <u>804,989</u>    | <u>804,989</u>    | <u>804,989</u>                      | <u>-</u>  |
| Fund Balance - Ending                           | <u>\$ 421,355</u> | <u>\$ 412,555</u> | <u>\$ 760,516</u>                   | <u>\$ 347,961</u>                                       |

Northwestern Area School District 56-7  
Budgetary Comparison Schedule – Capital Outlay Fund  
Year Ended June 30, 2018

|  | Budgeted Amounts    |                   | Actual Amounts<br>(Budgetary Basis) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|---------------------|-------------------|-------------------------------------|---|
|  | Original            | Final             |                                     |   |
| <b>Revenues</b>  |                     |                   |                                     |   |
| 1000 Revenue from local sources  |                     |                   |                                     |   |
| 1100 Taxes:  |                     |                   |                                     |   |
| 1110 Ad valorem taxes  | \$ 625,000          | \$ 625,000        | \$ 609,345                          | \$ (15,655)   |
| 1120 Prior year's ad valorem taxes   | 3,000               | 3,000             | 3,687                               | 687   |
| 1190 Penalties and interest on taxes   | 1,500               | 1,500             | 1,535                               | 35  |
| 1500 Earnings on investments and deposits  | -                   | -                 | 4,620                               | 4,620   |
| 1900 Other revenue from local sources:   |                     |                   |                                     |   |
| 1920 Contributions and donations   | 4,000               | 4,000             | 14,350                              | 10,350  |
| 1960 Judgements  | -                   | -                 | 9,145                               | 9,145   |
| 1990 Other   | 3,500               | 3,500             | 725                                 | (2,775)   |
| 2000 Revenue from intermediate sources   |                     |                   |                                     |   |
| 2200 Revenue in lieu of taxes  | -                   | -                 | 787                                 | 787   |
| 3000 Revenue from state sources  |                     |                   |                                     |   |
| 3120 Restricted grants-in-aid  | -                   | -                 | 18,658                              | 18,658  |
| 4000 Revenue from federal sources  |                     |                   |                                     |   |
| 4100 Grants-in-aid   |                     |                   |                                     |   |
| 4130 Unrestricted grant-in-aid<br>received from federal government<br>through an intermediate source | 89,000              | 89,000            | -                                   | (89,000)  |
| 4150-4199 Restricted grants-in-aid<br>received from federal government<br>through the state          | -                   | -                 | 29,835                              | 29,835  |
| Total revenues   | <u>726,000</u>      | <u>726,000</u>    | <u>692,687</u>                      | <u>(33,313)</u>   |
| <b>Expenditures</b>  |                     |                   |                                     |   |
| 1000 Instruction   |                     |                   |                                     |   |
| 1100 Regular programs:   |                     |                   |                                     |   |
| 1110 Elementary  | 74,960              | 74,960            | 13,307                              | 61,653  |
| 1120 Jr High School  | 91,025              | 91,025            | 19,376                              | 71,649  |
| 1130 High school   | 225,515             | 225,515           | 149,921                             | 75,594  |
| 2000 Support services  |                     |                   |                                     |   |
| 2200 Support services - instructional staff:   |                     |                   |                                     |   |
| 2220 Educational media   | 14,700              | 14,700            | 3,149                               | 11,551  |
| 2400 Support services - school administration:   |                     |                   |                                     |   |
| 2490 Other   | 3,100               | 3,100             | 1,000                               | 2,100   |
| 2500 Support services - business:  |                     |                   |                                     |   |
| 2520 Fiscal services   | 3,000               | 3,000             | 3,000                               | -   |
| 2540 Operation and maintenance of plant  | 206,700             | 206,700           | 140,574                             | 66,126  |
| 2550 Transportation  | 75,000              | 75,000            | 24,999                              | 50,001  |
| 2560 Food Services   | 7,500               | 7,500             | -                                   | 7,500   |
| 6000 Cocurricular activities   |                     |                   |                                     |   |
| 6900 Combined activities   | 24,500              | 24,500            | 12,808                              | 11,692  |
| Total expenditures   | <u>726,000</u>      | <u>726,000</u>    | <u>368,134</u>                      | <u>357,866</u>  |
| Other Financing Sources (Uses)   |                     |                   |                                     |   |
| 8110 Transfers out   | -                   | (125,000)         | (125,000)                           | -   |
| Total other financing sources (uses)   | <u>-</u>            | <u>(125,000)</u>  | <u>(125,000)</u>                    | <u>-</u>  |
| Net Change in Fund Balances  | -                   | (125,000)         | 199,553                             | 324,553   |
| Fund Balance - Beginning   | <u>1,071,078</u>    | <u>1,071,078</u>  | <u>1,071,078</u>                    | <u>-</u>  |
| Fund Balance - Ending  | <u>\$ 1,071,078</u> | <u>\$ 946,078</u> | <u>\$ 1,270,631</u>                 | <u>\$ 324,553</u>                                       |



Northwestern Area School District 56-7  
 Budgetary Comparison Schedule – Special Education Fund  
 Year Ended June 30, 2018

|   | Budgeted Amounts  |                   | Actual Amounts<br>(Budgetary Basis) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------|-------------------|-------------------------------------|---|
|   | Original          | Final             |                                     |   |
| <b>Revenues</b>                           |                   |                   |                                     |   |
| 1000 Revenue from local sources           |                   |                   |                                     |   |
| 1100 Taxes:                               |                   |                   |                                     |   |
| 1110 Ad valorem taxes                     | \$ 334,550        | \$ 334,550        | \$ 305,106                          | \$ (29,444)   |
| 1120 Prior year's ad valorem taxes        | 1,500             | 1,500             | 1,743                               | 243   |
| 1190 Penalties and interest on taxes      | 600               | 600               | 654                                 | 54  |
| 1900 Other revenue from local sources:    |                   |                   |                                     |   |
| 1970 Charges for services                 | 10,400            | 10,400            | 20,566                              | 10,166  |
| 2200 Revenue in lieu of taxes             | -                 | -                 | 367                                 | 367   |
| Total revenues                            | <u>347,050</u>    | <u>347,050</u>    | <u>328,436</u>                      | <u>(18,614)</u>   |
| <b>Expenditures</b>                       |                   |                   |                                     |   |
| 1000 Instruction                          |                   |                   |                                     |   |
| 1200 Special programs:                    |                   |                   |                                     |   |
| 1220 Programs for special education       | 346,150           | 346,700           | 267,373                             | 79,327  |
| 2000 Support services                     |                   |                   |                                     |   |
| 2100 Pupils:                              |                   |                   |                                     |   |
| 2140 Psychological                        | 7,000             | 7,000             | 5,468                               | 1,532   |
| 2150 Speech pathology                     | 24,000            | 24,000            | 12,837                              | 11,163  |
| 2700 Support services - special education |                   |                   |                                     |   |
| 2710 Administrative costs                 | 11,450            | 11,450            | 10,846                              | 604   |
| Total expenditures                        | <u>388,600</u>    | <u>389,150</u>    | <u>296,524</u>                      | <u>92,626</u>   |
| Net Change in Fund Balances               | (41,550)          | (42,100)          | 31,912                              | 74,012  |
| Fund Balance - Beginning                  | <u>285,915</u>    | <u>285,915</u>    | <u>285,915</u>                      | <u>-</u>  |
| Fund Balance - Ending                     | <u>\$ 244,365</u> | <u>\$ 243,815</u> | <u>\$ 317,827</u>                   | <u>\$ 74,012</u>  |

Northwestern Area School District 56-7  
 Budgetary Comparison Schedule – Pension Fund  
 Year Ended June 30, 2018

|   | Budgeted Amounts  |                   | Actual Amounts<br>(Budgetary Basis) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------|-------------------|-------------------------------------|---|
|   | Original          | Final             |                                     |   |
| <b>Revenues</b>                                 |                   |                   |                                     |   |
| 1000 Revenue from local sources                 |                   |                   |                                     |   |
| 1100 Taxes:                                     |                   |                   |                                     |   |
| 1110 Ad valorem taxes                           | \$ -              | \$ -              | \$ 1                                | \$ 1  |
| 1120 Prior years' ad valorem taxes              | 500               | 500               | 415                                 | (85)  |
| 1190 Penalties and interest on taxes            | 250               | 250               | 80                                  | (170)   |
| Total revenues                                  | <u>750</u>        | <u>750</u>        | <u>496</u>                          | <u>(254)</u>  |
| <b>Expenditures</b>                             |                   |                   |                                     |   |
| 1000 Instruction                                |                   |                   |                                     |   |
| 1100 Regular programs:                          |                   |                   |                                     |   |
| 1110 Elementary                                 | 21,500            | 21,500            | 20,557                              | 943   |
| 1120 Jr High School                             | 12,000            | 12,000            | 11,083                              | 917   |
| 1130 High School                                | 21,000            | 21,000            | 20,279                              | 721   |
| 2000 Support services                           |                   |                   |                                     |   |
| 2100 Pupils:                                    |                   |                   |                                     |   |
| 2120 Guidance                                   | 1,700             | 1,700             | 1,620                               | 80  |
| 2200 Support services - instructional staff:    |                   |                   |                                     |   |
| 2210 Improvement of instruction                 | 550               | 550               | 406                                 | 144   |
| 2220 Educational media                          | 2,100             | 2,100             | 1,930                               | 170   |
| 2300 Support services - general administration: |                   |                   |                                     |   |
| 2310 Board of education                         | 1,650             | 1,650             | 1,550                               | 100   |
| 2320 Executive administration                   | 5,200             | 5,200             | 4,488                               | 712   |
| 2400 Support services - school administration:  |                   |                   |                                     |   |
| 2410 Office of the Principal                    | 4,000             | 4,000             | 3,959                               | 41  |
| 2500 Support services - business:               |                   |                   |                                     |   |
| 2520 Fiscal services                            | 3,000             | 3,000             | 2,899                               | 101   |
| 2540 Operation and maintenance of plant         | 3,900             | 4,250             | 4,234                               | 16  |
| 2550 Pupil transportation                       | 1,500             | 1,500             | 1,263                               | 237   |
| 4000 Nonprogrammed charges                      |                   |                   |                                     |   |
| 4500 Early retirement payments                  | 23,700            | 23,700            | 23,683                              | 17  |
| 6000 Cocurricular activities                    |                   |                   |                                     |   |
| 6100 Male activities                            | 950               | 950               | 822                                 | 128   |
| 6200 Female activities                          | 850               | 850               | 749                                 | 101   |
| 6900 Combined activities                        | 175               | 175               | 150                                 | 25  |
| Total expenditures                              | <u>103,775</u>    | <u>104,125</u>    | <u>99,672</u>                       | <u>4,453</u>  |
| Net Change in Fund Balances                     | (103,025)         | (103,375)         | (99,176)                            | 4,199   |
| Fund Balance - Beginning                        | <u>296,780</u>    | <u>296,780</u>    | <u>296,780</u>                      | <u>-</u>  |
| Fund Balance - Ending                           | <u>\$ 193,755</u> | <u>\$ 193,405</u> | <u>\$ 197,604</u>                   | <u>\$ 4,199</u>   |

### **Note 1 - Basis of Presentation**

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

### **Note 2 - Budgetary Legal Requirements**

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

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

Northwestern Area School District 56-7  
Schedule of Employer's Share of Net Pension Liability (Asset)  
Year Ended June 30, 2018

| Pension Plan | Fiscal Year<br>Ending | Employer's<br>Percentage<br>of the Net<br>Pension<br>Liability<br>(Asset) | Employer's<br>Proportionate<br>Share of<br>the Net<br>Pension<br>Liability<br>(Asset) (a) | Employer's<br>Covered<br>Payroll (b) | Employer's<br>Proportionate<br>Share of the<br>Net Pension<br>Liability<br>(Asset) as a<br>Percentage of<br>its Covered<br>Payroll<br>(a/b) | Plan Fiduciary<br>Net Position as<br>a Percentage<br>of the Total<br>Pension<br>Liability<br>(Asset) |
|--------------|-----------------------|---|---|--------------------------------------|---|--|
| SDRS         | 6/30/2017             | 0.0736902%  | \$ (6,687)  | \$ 1,497,220                         | 0.45%   | 100.10%  |
| SDRS         | 6/30/2016             | 0.0757043%  | 255,722   | 1,439,516                            | 17.76%  | 96.89%   |
| SDRS         | 6/30/2015             | 0.0783327%  | (332,231)   | 1,430,130                            | 23.23%  | 104.10%  |
| SDRS         | 6/30/2014             | 0.0831806%  | (599,282)   | 1,454,591                            | 41.20%  | 107.29%  |

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

Northwestern Area School District 56-7  
 Schedule of Pension Contributions  
 Year Ended June 30, 2018

| Pension Plan | Fiscal Year<br>Ending | Statutorily<br>Required<br>Contribution<br>(a) | Contributions in<br>Relation to the<br>Statutorily<br>Required<br>Contribution<br>(b) | Contribution<br>Deficiency<br>(Excess)<br>(a-b) | Covered<br>Payroll (d) | Contributions<br>as a<br>Percentage of<br>Covered<br>Payroll (b/d) |
|--------------|-----------------------|--|---|---|------------------------|--|
| SDRS         | 6/30/2018             | \$ 91,782                                      | \$ 91,782   | \$ -  | \$ 1,529,694           | 6.0%   |
| SDRS         | 6/30/2017             | 89,834   | 89,834  | -   | 1,497,220              | 6.0%   |
| SDRS         | 6/30/2016             | 86,371   | 86,371  | -   | 1,439,516              | 6.0%   |
| SDRS         | 6/30/2015             | 85,808   | 85,808  | -   | 1,430,130              | 6.0%   |

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

**Changes of Benefit Terms:**

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

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

The changes in benefit provisions reduced the Actuarial Accrued Liability by \$567 million, or 5.0% of the initial Actuarial Accrued Liability, before considering the reduction in maximum COLA payable in 2018 and assumed to be payable for future years. Based on the Fair Value of Assets at June 30, 2017, the maximum 2018 SDRS COLA will be limited to 1.89%. Future years' COLAs are assumed to equal the current maximum limitation. The change in Actuarial Accrued Liability caused by assuming the current restricted maximum COLA remains in effect is reflected in the impact of the actuarial assumption changes.

**Changes of Assumptions:**

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



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

The School Board  
Northwestern Area School District 56-7  
Mellette, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Northwestern Area School District 56-7 (the School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District’s basic financial statements, and have issued our report thereon dated November 15, 2018.

**Internal Control over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying auditor’s comments, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying auditor’s comments as items 2017-A and 2017-B to be material weaknesses.

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

### **Compliance and Other Matters**

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

### **Response to Findings**

The School District's responses to the findings identified in our audit are described in the accompanying auditor's comments. The School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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.



Aberdeen, South Dakota  
November 15, 2018



## **Status of Prior Audit Recommendations**

### **Finding 2017-A**

There was a lack of segregation of duties that may result in internal control over financial reporting and compliance to be inadequate.

Current Status: This has not been corrected and is restated as current audit finding 2018-A.

### **Finding 2017-B**

There was a lack of internal control in the preparation of the financial statements and footnotes and significant journal entries that may result in a misstatement of the School District's financial statements.

Current Status: This has not been corrected and is restated as current audit finding 2018-B.

## **Current Audit Findings and Recommendations**

### **Material Weaknesses**

#### **Finding 2018-A – Lack of Segregation of Duties**

Condition: Northwestern Area School District 56-7 has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures and payroll functions as well as reconciliation of bank accounts due to the lack of segregation of duties.

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The School District has insufficient number of staff to adequately separate duties.

Effect: This condition increases the risk that fraud or errors might occur in the financial reporting process and not be detected and corrected on a timely basis.

Recommendation: Although it is recognized that number of office staff may not be large enough to permit an adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the School Board exercise adequate oversight of the accounting function. We also recommend someone other than the check signor control the signature stamp of the board chair.

Management's Response: Management has assessed the cost benefit and accepts the risk associated with lack of segregation of duties in the School District.

**2018-B – Preparation of Financial Statements, Footnotes and Significant Journal Entries**

Condition: Northwestern Area School District 56-7 requested the external auditors to assist in the preparation of the financial statements and related footnotes for the year ended June 30, 2018. As part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the School District's existing internal controls and, therefore, could result in a misstatement of the School District's financial statements.

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

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

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

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

Management's Response: Management has assessed the cost benefit and accepts the risk associated with preparation of the final audited financial statements by the independent auditor.