



Financial Statements  
June 30, 2018

# Warner School District 6-5

Independent Auditor’s Report.....	1
Financial Statements	
Statement of Net Position .....	3
Statement of Activities.....	4
Balance Sheet – Governmental Funds .....	5
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	6
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities .....	10
Statement of Net Position– Proprietary Funds.....	11
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds.....	12
Statement of Cash Flows – Proprietary Funds.....	13
Statement of Fiduciary Net Position .....	14
Statement of Changes in Fiduciary Net Position .....	15
Notes to Financial Statements.....	16
Required Supplementary Information	
Budgetary Comparison Schedule – Budgetary Basis – General Fund.....	36
Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund .....	38
Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund .....	39
Budgetary Comparison Schedule – Budgetary Basis – Pension Fund.....	40
Notes to Required Supplementary Information – Budgetary Comparison Schedules .....	41
Schedule of Employer’s Share of Net Pension Liability (Asset).....	42
Schedule of Employer’s Contributions .....	43
Notes to Required Supplementary Information – Pension Schedules.....	44
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	45
Schedule of Findings.....	47



## Independent Auditor's Report

To the School Board  
Warner School District 6-5  
Warner, 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 Warner School District 6-5 (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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Warner School District 6-5, 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 schedule of employer's share of net pension liability (asset), schedule of employer's contributions, and budgetary comparison information on pages 36 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 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, 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 District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Aberdeen, South Dakota  
December 11, 2018

Warner School District 6-5  
Statement of Net Position  
June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 1,608,495	\$ -	\$ 1,608,495
Investments	147,200	-	147,200
Taxes receivable	719,402	-	719,402
Inventories	-	4,032	4,032
Net pension asset	6,673	256	6,929
Internal balances	7,095	(7,095)	-
Other assets	92,626	-	92,626
Capital assets:			
Land and land improvements	43,728	-	43,728
Other capital assets, net of depreciation	6,859,478	9,738	6,869,216
Total assets	<u>9,484,697</u>	<u>6,931</u>	<u>9,491,628</u>
<b>Deferred Outflows of Resources</b>			
Pension related deferred outflows	724,764	27,847	752,611
	<u>\$ 10,209,461</u>	<u>\$ 34,778</u>	<u>\$ 10,244,239</u>
<b>Liabilities</b>			
Accounts payable	\$ 73,304	\$ 238	\$ 73,542
Due to agency fund	515	-	515
Other current liabilities	247,061	9,505	256,566
Noncurrent liabilities:			
Due within one year	203,266	-	203,266
Due in more than one year	2,436,544	-	2,436,544
Total liabilities	<u>2,960,690</u>	<u>9,743</u>	<u>2,970,433</u>
<b>Deferred Inflows of Resources</b>			
Pension related deferred inflows	144,784	5,563	150,347
Taxes levied for future period	848,153	-	848,153
Total deferred inflows of resources	<u>992,937</u>	<u>5,563</u>	<u>998,500</u>
<b>Net Position</b>			
Net investment in capital assets	4,263,396	9,738	4,273,134
Restricted for:			
Capital Outlay	533,264	-	533,264
Special Education	215,302	-	215,302
Pension Fund	347,968	-	347,968
SDRS Benefits	586,653	22,284	608,937
Northern High Tech Consortium	38,637	-	38,637
Unrestricted	270,614	(12,550)	258,064
Total net position	<u>6,255,834</u>	<u>19,472</u>	<u>6,275,306</u>
	<u>\$ 10,209,461</u>	<u>\$ 34,778</u>	<u>\$ 10,244,239</u>

Warner School District 6-5  
Statement of Activities  
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
<b>Primary Government</b>							
Governmental activities:							
Instruction	\$ 1,391,990	\$ 9,252	\$ 181,473	\$ -	\$ (1,201,265)	\$ -	\$ (1,201,265)
Support services	1,034,156	21,558	-	-	(1,012,598)	-	(1,012,598)
*Interest on long-term debt	88,115	-	-	-	(88,115)	-	(88,115)
Cocurricular activities	235,701	29,511	-	-	(206,190)	-	(206,190)
Total governmental activities	<u>2,749,962</u>	<u>60,321</u>	<u>181,473</u>	<u>-</u>	<u>(2,508,168)</u>	<u>-</u>	<u>(2,508,168)</u>
Business-type activities:							
Food service	146,806	116,810	-	-	-	(29,996)	(29,996)
Preschool	18,809	21,809	-	-	-	3,000	3,000
Drivers education	8,389	8,025	-	-	-	(364)	(364)
Total business-type activities	<u>174,004</u>	<u>146,644</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,360)</u>	<u>(27,360)</u>
<b>Total primary government</b>	<u>\$ 2,923,966</u>	<u>\$ 206,965</u>	<u>\$ 181,473</u>	<u>\$ -</u>	<u>(2,508,168)</u>	<u>(27,360)</u>	<u>(2,535,528)</u>
<b>General Revenues</b>							
Taxes:							
Property taxes					1,360,617	-	1,360,617
Gross receipts taxes					22,390	-	22,390
Revenue from state sources:							
State aid					1,445,959	-	1,445,959
Other					-	748	748
Revenue from federal sources					16,244	40,061	56,305
Unrestricted investment earnings					7,545	13	7,558
Other general revenues					30,356	-	30,356
Transfers					(6,700)	6,700	-
Gain on Sale of Surplus Property					1,075	-	1,075
Total general revenues, transfers and sale of surplus property					<u>2,877,486</u>	<u>47,522</u>	<u>2,925,008</u>
<b>Change in Net Position</b>					<u>369,318</u>	<u>20,162</u>	<u>389,480</u>
<b>Net Position (Deficit) - Beginning</b>					<u>5,886,516</u>	<u>(690)</u>	<u>5,885,826</u>
<b>Net Position - Ending</b>					<u>\$ 6,255,834</u>	<u>\$ 19,472</u>	<u>\$ 6,275,306</u>

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

Warner School District 6-5  
Balance Sheet – Governmental Funds  
June 30, 2018

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Northern High Tech Consortium	Total Funds
<b>Assets</b>							
Cash and cash equivalents	\$ 321,672	\$ 643,490	\$ 255,546	\$ 347,961	\$ -	\$ 39,826	\$ 1,608,495
Investments	147,200	-	-	-	-	-	147,200
108 Advance payments	2,000	-	-	-	-	-	2,000
110 Taxes receivable - current	259,762	286,808	112,867	-	55,306	-	714,743
112 Taxes receivable - delinquent	1,844	1,831	677	7	300	-	4,659
130 Due from bond fund	2,531	-	-	-	-	-	2,531
130 Due from enterprise funds	7,095	-	-	-	-	-	7,095
140 Due from other government	60,788	14,822	-	-	-	-	75,610
191 Deposits	15,016	-	-	-	-	-	15,016
	<u>\$ 817,908</u>	<u>\$ 946,951</u>	<u>\$ 369,090</u>	<u>\$ 347,968</u>	<u>\$ 55,606</u>	<u>\$ 39,826</u>	<u>\$ 2,577,349</u>
<b>Liabilities</b>							
402 Accounts payable	\$ 16,822	\$ 54,928	\$ 365	\$ -	\$ -	\$ 1,189	\$ 73,304
404 Contracts payable	180,696	-	13,463	-	-	-	194,159
410 Due to general fund	-	-	-	-	2,531	-	2,531
410 Due to trust and agency fund	-	515	-	-	-	-	515
450 Payroll deductions, withholdings and employer matching payable	48,088	-	4,814	-	-	-	52,902
Total liabilities	<u>245,606</u>	<u>55,443</u>	<u>18,642</u>	<u>-</u>	<u>2,531</u>	<u>1,189</u>	<u>323,411</u>
<b>Deferred Inflows of Resources</b>							
550 Unavailable revenue-grants	-	14,822	-	-	-	-	14,822
551 Unavailable revenue-delinquent property taxes	1,844	1,831	677	7	300	-	4,659
551 Taxes levied for a future period	303,363	343,422	135,146	-	66,222	-	848,153
Total deferred inflows of resources	<u>305,207</u>	<u>360,075</u>	<u>135,823</u>	<u>7</u>	<u>66,522</u>	<u>-</u>	<u>867,634</u>
<b>Fund Balances</b>							
710 Nonspendable	15,016	-	-	-	-	-	15,016
720 Restricted for:							
Capital Outlay	-	531,433	-	-	-	-	531,433
Special Education	-	-	214,625	-	-	-	214,625
Pension	-	-	-	347,961	-	-	347,961
Northern High Tech Consortium	-	-	-	-	-	38,637	38,637
760 Unassigned	252,079	-	-	-	(13,447)	-	238,632
Total fund balances	<u>267,095</u>	<u>531,433</u>	<u>214,625</u>	<u>347,961</u>	<u>(13,447)</u>	<u>38,637</u>	<u>1,386,304</u>
	<u>\$ 817,908</u>	<u>\$ 946,951</u>	<u>\$ 369,090</u>	<u>\$ 347,968</u>	<u>\$ 55,606</u>	<u>\$ 39,826</u>	<u>\$ 2,577,349</u>

Warner School District 6-5  
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
Year Ended June 30, 2018

---

Total Fund Balances - Governmental Funds	\$ 1,386,304
Amounts Reported for Governmental Activities in the Statement of Net Position is Different Because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	6,903,206
Long-term liabilities, including bonds payable and capital leases payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(2,639,810)
Assets, such as delinquent taxes receivable and amounts due from other governments that are not available to pay for current period expenditures, are deferred in the funds.	4,659
Revenues from grants that are not available to pay for current period expenditures are deferred in the funds.	14,822
Net pension asset/liability, pension related deferred inflows of resources, and pension related deferred outflows of resources do not represent available financial resources and, therefore, are not reported in the funds.	<u>586,653</u>
Net Position - Governmental Funds	<u><u>\$ 6,255,834</u></u>



Warner School District 6-5  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2018

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Northern High Tech Consortium	Total Governmental Funds
Revenues							
1000 Revenue from local sources							
1100 Taxes							
1110 Ad valorem taxes	\$ 513,542	\$ 523,989	\$ 210,190	\$ -	\$ 107,710	\$ -	\$ 1,355,431
1120 Prior year's ad valorem taxes	1,304	694	284	-	-	-	2,282
1130 Tax deed revenue	-	-	-	-	207	-	207
1140 Utility taxes	45,069	-	-	-	-	-	45,069
1190 Penalties and interest on taxes	604	502	204	-	134	-	1,444
1300 Tuition and fees	9,252	-	-	-	-	-	9,252
1500 Earnings on investments and deposits	3,519	629	369	2,993	35	-	7,545
1700 Cocurricular activities							
1710 Admissions	24,723	-	-	-	-	-	24,723
1740 Rentals	240	-	-	-	-	-	240
1790 Other pupil activity income	4,548	-	-	-	-	-	4,548
1900 Other revenue from local sources							
1920 Contributions and donations	2,036	5,379	-	-	-	-	7,415
1940 Services Provided - Other LEAs	-	-	-	-	-	17,215	17,215
1970 Charges for services	4,172	-	171	-	-	-	4,343
1990 Other	4,228	3,500	-	-	-	-	7,728
2000 Revenue from intermediate sources							
2100 County sources							
2110 County apportionment	17,933	-	-	-	-	-	17,933
2200 Revenue in lieu of taxes	64	91	37	-	19	-	211
3000 Revenue from State sources							
3100 Grants-in-aid							
3110 Unrestricted grants-in-aid	1,445,959	-	-	-	-	-	1,445,959
4000 Revenue from Federal sources							
4100 Grants-in-aid							
4140 Restricted grants-in-aid received directly from Federal government	-	39,991	-	-	-	-	39,991
4150-4199 Restricted grants-in aid received from Federal government through the State	101,963	21,000	-	-	-	20,287	143,250
4900 Other Federal revenue	851	-	-	-	15,393	-	16,244
Total revenues	<u>2,180,007</u>	<u>595,775</u>	<u>211,255</u>	<u>2,993</u>	<u>123,498</u>	<u>37,502</u>	<u>3,151,030</u>

Warner School District 6-5  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2018

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Northern High Tech Consortium	Total Governmental Funds
Expenditures							
1000 Instruction							
1100 Regular programs							
1110 Elementary	528,110	1,871	-	-	-	-	529,981
1120 Middle school	286,037	-	-	-	-	-	286,037
1130 High school	393,551	350	-	-	-	19,873	413,774
1200 Special programs							
1220 Programs for special education	-	-	174,320	-	-	-	174,320
1270 Educationally deprived	95,847	-	-	-	-	-	95,847
2000 Support services							
2100 Pupils							
2120 Guidance	39,296	-	-	-	-	-	39,296
2130 Health	420	-	-	-	-	-	420
2140 Psychological	-	-	7,684	-	-	-	7,684
2150 Speech pathology	-	-	18,040	-	-	-	18,040
2170 Student therapy services	-	-	4,454	-	-	-	4,454
2200 Support services - instructional staff							
2210 Improvement of instruction	1,423	-	-	-	-	-	1,423
2220 Educational media	111,071	3,868	-	-	-	-	114,939
2300 Support services - general administration							
2310 Board of education	23,794	-	-	-	-	-	23,794
2320 Executive administration	63,109	-	-	-	-	-	63,109
2400 Support services - school administration							
2410 Office of the principal	178,135	-	-	-	-	-	178,135
2490 Other	271	-	-	-	-	-	271
2500 Support services - business							
2520 Fiscal services	89,272	-	-	-	-	-	89,272
2530 Facilities acquisition and construction	-	303,747	-	-	-	12,050	315,797
2540 Operation and maintenance of plant	269,026	-	-	-	-	-	269,026
2550 Pupil transportation	97,929	59,000	-	-	-	-	156,929
2600 Support services - central							
2640 Staff	340	-	-	-	-	-	340
2700 Support services - special education							
2710 Administrative costs	-	-	16,534	-	-	-	16,534

Warner School District 6-5  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2018

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Northern High Tech Consortium	Total Governmental Funds
5000 Debt services	-	189,183	-	-	132,224	-	321,407
6000 Cocurricular activities							
6100 Male activities	53,097	5,189	-	-	-	-	58,286
6200 Female activities	51,154	3,506	-	-	-	-	54,660
6900 Combined activities	25,749	1,614	-	-	-	-	27,363
Total expenditures	<u>2,307,631</u>	<u>568,328</u>	<u>221,032</u>	<u>-</u>	<u>132,224</u>	<u>31,923</u>	<u>3,261,138</u>
Excess of Revenue over (under) Expenditures	<u>(127,624)</u>	<u>27,447</u>	<u>(9,777)</u>	<u>2,993</u>	<u>(8,726)</u>	<u>5,579</u>	<u>(110,108)</u>
Other Financing Sources (Uses)							
8110 Transfers out	(6,700)	(6,700)	-	-	-	-	(13,400)
5110 Transfers in	6,700	-	-	-	-	-	6,700
5130 Sale of surplus property	1,075	-	-	-	-	-	1,075
Total other financing sources (uses)	<u>1,075</u>	<u>(6,700)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,625)</u>
Net Change in Fund Balances	(126,549)	20,747	(9,777)	2,993	(8,726)	5,579	(115,733)
Fund Balance (Deficit) - Beginning	<u>393,644</u>	<u>510,686</u>	<u>224,402</u>	<u>344,968</u>	<u>(4,721)</u>	<u>33,058</u>	<u>1,502,037</u>
Fund Balance (Deficit) - Ending	<u>\$ 267,095</u>	<u>\$ 531,433</u>	<u>\$ 214,625</u>	<u>\$ 347,961</u>	<u>\$ (13,447)</u>	<u>\$ 38,637</u>	<u>\$ 1,386,304</u>

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-  
Wide Statement of Activities  
Year Ended June 30, 2018

---

Net Change in Fund Balances - Total Governmental Funds	\$ (115,733)
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 of \$299,665 was less than depreciation of \$300,389 in the current period.	(724)
The receipt of donated capital assets is not reported on the fund statements but is reported as a program revenue on the government wide statements.	4,484
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	190,000
Grant revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(9,183)
Capital lease payments are expenditures in the governmental funds, when due, but repayments reduce long-term liabilities in the statement of net position.	7,962
The accrual of OPEB costs are not reflected in governmental funds, but the statement of activities reflects the change in this liability from one year to the next.	35,330
Prepaid expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	36,083
The fund financial statement governmental fund property tax differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available."	(21,426)
Revenues and reductions of expenses related to pensions do not provide current financial resources and, therefore, are not reported in the funds.	242,525
Change in Net Position of Governmental Activities	<u>\$ 369,318</u>

Warner School District 6-5  
Statement of Net Position– Proprietary Funds  
June 30, 2018

	Enterprise		Total
	Food Service Fund	Other Enterprise Fund	
<b>Assets</b>			
<b>Current Assets</b>			
Inventory of supplies	\$ 732	\$ -	\$ 732
Inventory of stores purchased for resale	3,300	-	3,300
Total current assets	<u>4,032</u>	<u>-</u>	<u>4,032</u>
<b>Noncurrent Assets</b>			
Net pension asset	204	52	256
<b>Capital assets:</b>			
Machinery and equipment - local funds	86,761	-	86,761
Less accumulated depreciation	<u>(77,023)</u>	<u>-</u>	<u>(77,023)</u>
Total noncurrent assets	<u>9,942</u>	<u>52</u>	<u>9,994</u>
<b>Deferred Outflows of Resources</b>			
Pension related deferred outflows	<u>22,202</u>	<u>5,645</u>	<u>27,847</u>
	<u>\$ 36,176</u>	<u>\$ 5,697</u>	<u>\$ 41,873</u>
<b>Liabilities and Net Position</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ -	\$ 238	\$ 238
Contracts payable	3,804	-	3,804
Due to general fund	2,109	4,986	7,095
Payroll deductions, withholdings and employer matching payable	519	-	519
Deposits payable	<u>5,182</u>	<u>-</u>	<u>5,182</u>
Total current liabilities	<u>11,614</u>	<u>5,224</u>	<u>16,838</u>
<b>Deferred Inflows of Resources</b>			
Pension related deferred inflows	<u>4,435</u>	<u>1,128</u>	<u>5,563</u>
<b>Net Position</b>			
Net investment in capital assets	9,738	-	9,738
Restricted for SDRS benefits	17,971	4,569	22,540
Unrestricted net deficit	<u>(7,582)</u>	<u>(5,224)</u>	<u>(12,806)</u>
Total net position (deficit)	<u>20,127</u>	<u>(655)</u>	<u>19,472</u>
	<u>\$ 36,176</u>	<u>\$ 5,697</u>	<u>\$ 41,873</u>

Warner School District 6-5  
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds  
Year Ended June 30, 2018

	Enterprise		Total
	Food Service Fund	Other Enterprise Fund	
Operating Revenue			
Student tuition	\$ -	\$ 8,025	\$ 8,025
Food sales	116,810	-	116,810
Daycare services	-	21,809	21,809
Total operating revenue	<u>116,810</u>	<u>29,834</u>	<u>146,644</u>
Operating Expenses			
100 Salaries	50,324	19,730	70,054
200 Employee benefits	(2,830)	3,993	1,163
300 Purchased services	160	-	160
400 Supplies	4,482	3,475	7,957
461 Cost of sales - purchased	84,841	-	84,841
462 Cost of sales - donated	7,838	-	7,838
900 Depreciation	1,991	-	1,991
Total operating expenses	<u>146,806</u>	<u>27,198</u>	<u>174,004</u>
Operating Income (Loss)	<u>(29,996)</u>	<u>2,636</u>	<u>(27,360)</u>
Nonoperating Revenue			
Local sources:			
1510 Investment earnings	9	4	13
State sources:			
3810 Cash reimbursements	748	-	748
Federal sources:			
4810 Cash reimbursements	31,822	401	32,223
4820 Donated food	7,838	-	7,838
Total nonoperating revenue	<u>40,417</u>	<u>405</u>	<u>40,822</u>
Income Before Contributions, Special Items, Extraordinary Items and Transfers	10,421	3,041	13,462
5110 Transfers in	<u>6,700</u>	<u>-</u>	<u>6,700</u>
Change in Net Position (Deficit)	<u>17,121</u>	<u>3,041</u>	<u>20,162</u>
Net Position (Deficit) - Beginning	<u>3,006</u>	<u>(3,696)</u>	<u>(690)</u>
Net Position (Deficit) - Ending	<u>\$ 20,127</u>	<u>\$ (655)</u>	<u>\$ 19,472</u>

Warner School District 6-5  
Statement of Cash Flows – Proprietary Funds  
Year Ended June 30, 2018

	Enterprise		Total
	Food Service Fund	Other Enterprise Fund	
Cash Flows (used for) from Operating Activities			
Cash receipts from customers	\$ 116,073	\$ 29,834	\$ 145,907
Cash payments to employees for services	(60,227)	(29,182)	(89,409)
Cash payments to suppliers of goods or services	(90,600)	(3,453)	(94,053)
Net Cash used for Operating Activities	<u>(34,754)</u>	<u>(2,801)</u>	<u>(37,555)</u>
Cash Flows from (used for) Noncapital Financing Activities			
Operating subsidies	32,570	401	32,971
Short-term borrowings from the general fund	(4,525)	-	(4,525)
Transfers in	6,700	-	6,700
Repayment of short-term borrowings from the general fund	-	2,396	2,396
Net Cash Flows from Noncapital Financing Activities	<u>34,745</u>	<u>2,797</u>	<u>37,542</u>
Cash Flows from Investing Activities			
Cash received for interest	9	4	13
Net Cash from Investing Activities	<u>9</u>	<u>4</u>	<u>13</u>
Net Change in Cash and Cash Equivalents	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash and Cash Equivalents Beginning of Year	-	-	-
Cash and Cash Equivalents End of Year	-	-	-
Reconciliation of Operating Income (Loss) to Net Cash used for Operating Activities			
Operating income (loss)	\$ (29,996)	\$ 2,636	\$ (27,360)
Adjustments to reconcile operating income (loss) to net cash used for operating activities			
Depreciation expense	1,991	-	1,991
Value of donated commodities used	7,838	-	7,838
Change in assets and liabilities:			
Inventories	(970)	-	(970)
Pension assets and deferred outflows	(5,301)	2,642	(2,659)
Pension liability and deferred inflows	(4,604)	(964)	(5,568)
Accounts and other payables	(2,975)	(7,115)	(10,090)
Deposits payable	(737)	-	(737)
Net Cash used for Operating Activities	<u>\$ (34,754)</u>	<u>\$ (2,801)</u>	<u>\$ (37,555)</u>
Noncash Investing, Capital and Financing Activities			
Value of commodities received	\$ 7,838	\$ -	\$ 7,838

Warner School District 6-5  
Statement of Fiduciary Net Position  
June 30, 2018

---

	Agency Funds	Private- Purpose Trust Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 169,297	\$ -
Due from capital outlay fund	515	-
	\$ 169,812	\$ -
<b>Liabilities</b>		
Amounts held for others	\$ 169,812	\$ -



Warner School District 6-5  
Statement of Changes in Fiduciary Net Position  
Year Ended June 30, 2018

---

	Private- Purpose Trust Funds
Additions	
Contributions and donations	\$ 2,231
Earnings from deposits and investments	1
Total additions	2,232
Deductions	
Trust deductions for scholarships	2,600
Change in Net Position	(368)
Net Position - Beginning	368
Net Position (Deficit) - Ending	\$ -

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

The accounting policies of the Warner School District 6-5 conform to generally accepted accounting principles applicable to government entities in the United States of America.

### **Financial Reporting Entity**

The reporting entity of Warner School District 6-5 (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 School District); 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 one component unit, Northern High Tech Consortium, which is presented as a blended component unit.

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 and deferred outflows of resources minus liabilities and deferred inflows of resources equal net position). Net position is displayed in three components, as applicable, net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the 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, deferred inflows, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or it meets the following criteria:

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary 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 and special education fund expenditures. The General Fund is always a major fund.

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

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

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

Pension Fund – A fund established by SDCL 13-10-6 for the purpose of 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 a major fund.

Northern High Tech Modules Consortium – A fund established to provide technological equipment to member school districts. This is a major fund.

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

Bond Redemption Fund – Funds established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. These are major funds.

### **Proprietary Funds**

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

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

Other Enterprise Fund (Driver’s Education and Preschool) – A fund used to record financial transactions related to driver’s education and preschool operations. This fund is financed by student tuition charges. This is a major fund.

### **Fiduciary Funds**

Fiduciary Funds are never considered to be major funds.

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

Private-Purpose Trust Fund – Private-purpose trust fund was created to act as a custodian for funds, such as scholarships, held in trust for the benefit of private individuals or organizations. The School District maintains only one private-purpose trust fund for scholarships.

## **Measurement Focus and Basis of Accounting**

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

### **Measurement Focus**

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

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

#### **Fund Financial Statements**

In the fund financial statements, the current financial resources measurement focus and the modified accrual basis of accounting are applied to governmental funds types, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds 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 funds 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. The revenues which are accrued at June 30, 2018 are due from state government or from local governments.

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

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

## **Interfund Eliminations and Reclassifications**

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

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

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

### **Fund Financial Statements**

Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources" and are reported in the appropriate fund balance category.

### **Inventory**

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO). Donated commodities are valued at estimated market value based on USDA price list at the date of receipt. In the government-wide 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 fund financial statements, inventories in the General Fund and the 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 nonspendable fund balance amounts which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. The School District did not have any material amounts of inventory in the General Fund or Special Revenue Funds.

### **Capital Assets**

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

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

### **Government-Wide Statements**

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

For governmental activities, construction-period interest is not capitalized, along with other capital asset costs.

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 Threshold	Depreciation Method	Estimated Useful Life
Land*	All Land Values	N/A	N/A
Improvements	\$ 10,000	Straight-Line	10-50 years
Buildings	20,000	Straight-Line	20-50 years
Equipment	3,000	Straight-Line	3-20 years
Library books	All Values	Straight-Line	5 years
Food service equipment	500	Straight-Line	5-12 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 bonds payable and financing lease obligations.

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.

### **Deferred Outflows and 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 revenue/expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has two types of items that qualify for reporting in this category. The School District reports unavailable revenues from property taxes on the government-wide statement of net position and unavailable revenues from property taxes and other grant revenues on 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 revenue/expense reported in the government-wide statement of net position.

### **Program Revenues**

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

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

### **Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year. Approximately 50% is considered to be applied to finance the budget of the current fiscal year, and the remaining percentage (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. Current year property taxes receivable which are not available as a resource that can be used to finance the current year's appropriations and, therefore, are not susceptible to accrual have been reported as unavailable revenue in both 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.

### **Cash, Cash Equivalents, and Investments**

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

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 does not meet the definition of “restricted” or “net investment in capital assets.”

#### **Fund Financial Statements**

Governmental fund equity is classified as fund balance, and is distinguished between nonspendable, restricted, committed, assigned, or 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 balance 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 restraints. Includes fund balance amounts related to noncurrent portions of long-term interfund receivables (reported in “Advance to” asset accounts).
- 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 which is 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/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements 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 Fund	Grants and Property Taxes
Special Education Fund	Grants and Property Taxes
Pension Fund	Property Taxes
Northern High Tech Consortium	Grants

**Pensions**

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

**Rounding**

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

**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.

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 bank failure, the School District’s deposits may not be returned. The School District’s deposit policy requires deposits in excess of the Federal Depository Insurance Corporation (FDIC) maximums to be 100% collateralized as required by South Dakota Codified Law. The financial institutions where the collateral is held must be a member of the FDIC. As of June 30, 2018, the financial institutions that hold the School District’s deposits were not properly collateralized, and the deposits that were exposed to custodial credit risk are as follows:

Depository Name	Percent Under-Collateralized	At-Risk Amount
First State Bank of Warner	7.93%	122,692

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

Insured (FDIC/NCUA)	\$ 397,200
Uninsured, collateral jointly held by State's/School District's agent in the name of the State and the pledging financial institution	1,547,191
	\$ 1,944,391

The School District's carrying amount of deposits at June 30, 2018	\$ 1,924,992
--	--------------

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

Cash and cash equivalents	\$ 1,608,495
Add: Agency Fund cash (not included in government-wide statement of net assets)	169,297
Add: Investments (CDs)	147,200
	\$ 1,924,992

### 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 Deposit as investments which are valued at amortized cost.

**Custodial Credit Risk** – 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. The School District's Certificates of Deposit mature within one year.

**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.

**Concentration of Credit Risk** – The School District places no limit on the amount that may be invested in any one issuer.

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.

### Note 3 - Receivables and Payables

Receivables and payables are aggregated in the government-wide financial statements. However, the fund financial statements present the receivable and payable information in a non-aggregated format. The School District expects all receivables to be collected within one year. Based on the nature of the receivables, no allowance for estimates uncollectible have been established. As of June 30, 2018, the School District has a due from other governments which consists of a due from state sources of \$60,788 in the General Fund and a due from federal sources of \$14,822 in the Capital Outlay Fund.

### Note 4 - Changes in Capital Assets

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

Primary Government	Balance 6/30/17	Increases	Decreases	Balance 06/30/18
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 43,728	\$ -	\$ -	\$ 43,728
Construction work in process	64,118	-	64,118	-
Total not being depreciated	107,846	-	64,118	43,728
Capital assets, being depreciated				
Improvements	780,125	135,519	-	915,644
Buildings	7,671,405	-	-	7,671,405
Machinery and equipment	1,161,043	228,881	-	1,389,924
Library books	127,949	3,868	2,121	129,696
Total being depreciated	9,740,522	368,268	2,121	10,106,669
Total accumulated depreciation	2,948,923	300,389	2,121	3,247,191
Total capital assets being depreciated, net	6,791,599	67,879	-	6,859,478
Governmental activity capital assets, net	<u>\$ 6,899,445</u>	<u>\$ 67,879</u>	<u>\$ 64,118</u>	<u>\$ 6,903,206</u>

Depreciation expense was charged to functions as follows:

Governmental Activities	
Instruction	\$ 98,924
Support services	98,870
Co-curricular activities	102,595
Total depreciation expense - governmental activities	<u>\$ 300,389</u>

Warner School District 6-5  
Notes to Financial Statements  
June 30, 2018

	Balance 06/30/17	Increases	Decreases	Balance 06/30/18
Business-Type Activities				
Capital assets, being depreciated				
Machinery and equipment	\$ 86,761	\$ -	\$ -	\$ 86,761
Total accumulated depreciation	75,032	1,991	-	77,023
Total capital assets being depreciated, net	11,729	(1,991)	-	9,738
Business-type activity capital assets, net	\$ 11,729	\$ (1,991)	\$ -	\$ 9,738

Depreciation expense was charged to functions as follows:

Business-Type Activities	
Food service	\$ 1,991

### Note 5 - Long-Term Liabilities

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

Purpose	Amounts Outstanding 6/30/17	Issued	Retired	Amounts Outstanding 6/30/18	Due in One Year
General Obligation Bonds - 2009	\$ 805,000	\$ -	\$ 95,000	\$ 710,000	\$ 95,000
Capital Outlay Certificates - 2014	2,010,000	-	95,000	1,915,000	100,000
Century Business Products Capital Lease - 2016	11,350	-	5,345	6,005	5,535
Century Business Products Capital Lease - 2017	11,422	-	2,617	8,805	2,731
OPEB Obligation	35,330	-	35,330	-	-
	<u>\$ 2,873,102</u>	<u>\$ -</u>	<u>\$ 233,292</u>	<u>\$ 2,639,810</u>	<u>\$ 203,266</u>

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

<b>General Obligation Bonds</b>		
General Obligation Bonds Series 2009, interest range from 3.25% to 5.5%, maturity dates January 1, 2016 to January 1, 2025, paid by the Bond Redemption Fund 2.	\$	710,000
<b>Capital Outlay Certificates</b>		
Capital Outlay Certificates 2014, interest range from .06% to 4.5%, maturity dates January 1, 2016 to January 1, 2034, paid by the Capital Outlay Fund.		1,915,000
<b>Other Long-Term Liabilities</b>		
Copier lease with Century Business Products, Inc., 4.25% interest rate, monthly payments of \$254, paid from Capital Outlay Fund.		8,805
Copier lease with Century Business Products, Inc., 3.50% interest rate, monthly payments of \$471, paid from Capital Outlay Fund.		6,005
		\$ 2,639,810

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

Year Ending June 30,	General Obligation - 2009		Capital Outlay Certificates - 2014		Century Business Products Capital Leases - 2016		Century Business Products Capital Leases - 2017		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 95,000	\$ 32,586	\$ 100,000	\$ 62,565	\$ 5,535	\$ 122	\$ 2,731	\$ 321	\$ 203,266	\$ 95,594
2020	95,000	28,549	100,000	60,965	470	1	2,849	203	198,319	89,718
2021	100,000	24,405	100,000	58,965	-	-	2,972	80	202,972	83,450
2022	100,000	19,730	105,000	56,679	-	-	253	1	205,253	76,410
2023	105,000	14,398	105,000	54,001	-	-	-	-	210,000	68,399
2024-2028	215,000	11,857	575,000	221,000	-	-	-	-	790,000	232,857
2029-2033	-	-	675,000	110,488	-	-	-	-	675,000	110,488
2034	-	-	155,000	3,488	-	-	-	-	155,000	3,488
	\$ 710,000	\$ 131,525	\$ 1,915,000	\$ 628,151	\$ 6,005	\$ 123	\$ 8,805	\$ 605	\$ 2,639,810	\$ 760,404

### Note 6 - Restricted Net Position

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

Purpose	Restricted By	Amount
Capital Outlay	Law	\$ 533,264
Special Education	Law	215,302
Pension Fund	Law	347,968
SDRS Pension Purposes	Law	608,937
Northern High Tech Consortium	Federal Regulation	38,637
		\$ 1,744,108

**Note 7 - Joint Ventures**

The School District participates in the following joint venture:

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

Hitchcock-Tulare School District  
Frederick Area School District  
Northwestern Area School District  
Doland School District  
Edmunds Central School District

Warner School District  
Langford Area School District  
Groton Area School District  
Leola School District

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

The School District retains no equity interest in the net position of the Co-op but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above. At June 30, 2018, the North Central Special Education Cooperative had fund equity of \$318,905 and no long-term debt. Financial statements are available by contacting the North Central Special Education Cooperative.

**Note 8 - 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 period ended June 30, 2018, the School District managed its risks as follows:

**Employee Health Insurance**

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

**Liability Insurance**

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



### **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 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 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. For the year ended June 30, 2018, the pool pays the first \$500,000 of any claim per individual. The pool has reinsurance, which covers up to \$1,000,000 per individual, per incident.

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 over 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 claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

### **Note 9 - Interfund Transactions**

During the year ended June 30, 2018, the General Fund transferred \$6,700 to the Food Service Fund to supplement the fund, and the Capital Outlay fund transferred \$6,700 to the General Fund to supplement the fund.

At June 30, 2018, \$2,531 was owed by the Bond Redemption Fund, \$2,109 was owed by the Food Service Fund, and \$4,986 was owed by the Other Enterprise Fund to the General Fund to cover cash shortfalls in the respective funds.

### **Note 10 - Deficit Fund Balances/Net Position of Individual Funds**

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

Bond Redemption	(13,447)
Other Enterprise	(655)

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

## Note 11 - Post-Employment Healthcare Plan

### Plan Description

As of July 1, 2018, current employees are no longer allowed to stay on the School District's healthcare plan. Retirees on the plan prior to June 30, 2018 are eligible to stay on the School District's healthcare plan until age 65. The School District does not have any retirees on the plan as of June 30, 2018 and therefore has removed the liability previously recorded.

## Note 12 - Pension Plan

### Plan Information

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

### Benefits Provided

SDRS has three different classes of employees, Class A, Class B public safety, and Class B judicial. Class A retirement benefits are determined as 1.7% prior to 2008 and 1.55% thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4% for service prior to 2008 and 2.0% thereafter of employee final average compensation. Class B judicial benefits are determined as 3.73% for service prior to 2008 and 3.33% thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 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 July 1, 2018 increase:

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

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

**Contributions**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary, Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District’s share of contributions to the SDRS for the fiscal years ending June 30, 2018, 2017, and 2016 were \$94,900, \$93,103 and \$81,919, respectively, equal to the required contributions each year.

**Pension Assets, 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 share of the components of the net pension asset of SDRS, for the School District as of the measurement period ending June 30, 2017 and reported by the School District as of June 30, 2018 are as follows:

Proportionate share of pension liability	\$ 8,882,864
Less proportionate share of net pension restricted for pension benefits	8,889,793
Proportionate share of net pension asset	\$ (6,929)

At June 30, 2018, the School District reported an asset of \$6,929 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017, and the total pension liability used to calculate the net pension asse) was based on a projection of the School District’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the School District’s proportion was 0.07634630%, which is an increase of 0.0045442% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense (reduction of expense) of (\$155,852). 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 Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 111,014	\$ -
Changes in assumption	537,955	-
Net difference between projected and actual earnings on pension plan investments	-	133,207
Changes in proportion and difference between School District contributions and proportionate share of contributions	8,742	17,140
School District contributions subsequent to the measurement date	94,900	-
Total	\$ 752,611	\$ 150,347

There is \$94,900 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 (reduction of expense) as follows:

Year Ended June 30:	Amount
2019	\$ 140,412
2020	231,966
2021	168,299
2022	(33,313)
Total	\$ 507,364

### Actuarial Assumptions

The total pension 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	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 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'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:

	1% Decrease	Current Discount Rate	1% Increase
School District's proportionate share of the net pension liability (asset)	\$ 1,268,955	\$ (6,929)	\$ (1,045,912)

### Pension Plan Fiduciary Net Position

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



Required Supplementary Information  
June 30, 2018

## Warner School District 6-5

Warner School District 6-5  
 Budgetary Comparison Schedule – Budgetary Basis – General Fund  
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources:				
1100 Taxes:				
1110 Ad valorem taxes	\$ 562,677	\$ 562,677	\$ 513,542	\$ (49,135)
1120 Prior year's ad valorem taxes	4,000	4,000	1,304	(2,696)
1140 Gross receipts taxes	35,000	35,000	45,069	10,069
1190 Penalties and interest on taxes	1,000	1,000	604	(396)
1300 Tuition and fees	6,500	6,500	9,252	2,752
1500 Earnings on investments and deposits	500	500	3,519	3,019
1700 Cocurricular activities:				
1710 Admissions	27,500	27,500	24,723	(2,777)
1740 Rentals	-	-	240	240
1790 Other pupil activity income	5,350	5,350	4,548	(802)
1900 Other revenue from local sources:				
1920 Contributions and donations	1,000	1,000	2,036	1,036
1970 Charges for services	5,500	5,500	4,172	(1,328)
1990 Other	14,000	14,000	4,228	(9,772)
2000 Revenue from intermediate sources:				
2100 County sources:				
2110 County apportionment	15,000	15,000	17,933	2,933
2200 Revenue in lieu of taxes	50	50	64	14
3000 Revenue from State sources:				
3100 Grants-in-aid:				
3110 Unrestricted grants-in-aid	1,438,472	1,438,472	1,445,959	7,487
4000 Revenue from Federal sources:				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from Federal government through the State	133,523	133,523	101,963	(31,560)
4900 Other Federal revenue	500	500	851	351
Total revenues	<u>2,250,572</u>	<u>2,250,572</u>	<u>2,180,007</u>	<u>(70,565)</u>

Warner School District 6-5  
 Budgetary Comparison Schedule – Budgetary Basis – General Fund  
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction:				
1100 Regular programs:				
1110 Elementary	728,683	728,683	528,110	200,573
1120 Middle school	276,900	276,900	286,037	(9,137)
1130 High school	390,469	390,469	393,551	(3,082)
1200 Special programs:				
1270 Educationally deprived	86,884	86,884	95,847	(8,963)
2000 Support Services:				
2100 Pupils:				
2120 Guidance	39,720	39,720	39,296	424
2130 Health	400	400	420	(20)
2200 Support services - instructional staff:				
2210 Improvement of instruction	1,300	1,300	1,423	(123)
2220 Educational media	105,061	105,061	111,071	(6,010)
2300 Support services - general: administration				
2310 Board of education	27,160	27,160	23,794	3,366
2320 Executive administration	62,914	62,914	63,109	(195)
2400 Support services - school administration:				
2410 Office of the principal	172,482	172,482	178,135	(5,653)
2490 Other	150	150	271	(121)
2500 Support services - business:				
2520 Fiscal services	93,384	93,384	89,272	4,112
2540 Operation and maintenance of plant	263,600	263,600	269,026	(5,426)
2550 Pupil transportation	101,200	101,200	97,929	3,271
2600 Support services - business:				
2640 Staff	500	500	340	160
6000 Cocurricular activities:				
6100 Male activities	55,450	55,450	53,097	2,353
6200 Female activities	50,100	50,100	51,154	(1,054)
6900 Combined activities	31,450	31,450	25,749	5,701
Total expenditures	<u>2,487,807</u>	<u>2,487,807</u>	<u>2,307,631</u>	<u>180,176</u>
Excess of Revenue over (under) Expenditures	<u>(237,235)</u>	<u>(237,235)</u>	<u>(127,624)</u>	<u>109,611</u>
Other Financing Sources (Uses)				
5110 Transfers in	150,000	150,000	6,700	(143,300)
8110 Transfers out	-	(6,700)	(6,700)	-
5130 Sale of surplus property	-	-	1,075	1,075
Total other financing sources (uses)	<u>150,000</u>	<u>143,300</u>	<u>1,075</u>	<u>(142,225)</u>
Net Change in Fund Balances	(87,235)	(93,935)	(126,549)	(32,614)
Fund Balance - Beginning	<u>393,644</u>	<u>393,644</u>	<u>393,644</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 306,409</u>	<u>\$ 299,709</u>	<u>\$ 267,095</u>	<u>\$ (32,614)</u>



Warner School District 6-5  
Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund  
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources:				
1100 Taxes:				
1110 Ad valorem taxes	\$ 686,000	\$ 686,000	\$ 523,989	\$ (162,011)
1120 Prior year's ad valorem taxes	1,000	1,000	694	(306)
1190 Penalties and interest on taxes	750	750	502	(248)
1500 Earnings on investments and deposits	300	300	629	329
1900 Other revenue and local sources:				
1920 Contribution and donations	5,000	7,842	5,379	(2,463)
1990 Other	-	-	3,500	3,500
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	-	-	91	91
4000 Revenue from Federal sources:				
4100 Grants-in-aid				
4140 Restricted grants-in-aid received directly from Federal government	27,033	27,033	39,991	12,958
4150-4199 Restricted grants-in aid received from Federal government through the State	35,988	35,988	21,000	(14,988)
4900 Other Federal revenue	27,575	27,575	-	(27,575)
Total revenues	<u>783,646</u>	<u>786,488</u>	<u>595,775</u>	<u>(190,713)</u>
<b>Expenditures</b>				
1000 Instruction:				
1100 Regular programs:				
1110 Elementary	6,000	6,000	1,871	4,129
1130 High school	6,000	6,000	350	5,650
2000 Support services:				
2200 Support services - instructional staff:				
2220 Educational media	500	500	3,868	(3,368)
2500 Support services - business:				
2530 Facilities acquisition and construction	344,771	352,826	303,747	49,079
2550 Pupil transportation	60,000	60,000	59,000	1,000
5000 Debt services	169,190	169,190	189,183	(19,993)
6000 Cocurricular activities:				
6100 Male activities	5,500	8,342	5,189	3,153
6200 Female activities	3,500	3,500	3,506	(6)
6900 Combined activities	2,000	2,000	1,614	386
Total expenditures	<u>597,461</u>	<u>608,358</u>	<u>568,328</u>	<u>40,030</u>
Excess of Revenue over (under) Expenditures	<u>186,185</u>	<u>178,130</u>	<u>27,447</u>	<u>(150,683)</u>
Other Financing Sources (Uses):				
8110 Transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(6,700)</u>	<u>43,300</u>
Net Change in Fund Balances	136,185	128,130	20,747	(107,383)
Fund Balance - Beginning	<u>510,686</u>	<u>510,686</u>	<u>510,686</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 646,871</u>	<u>\$ 638,816</u>	<u>\$ 531,433</u>	<u>\$ (107,383)</u>

Warner School District 6-5  
 Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund  
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources:				
1100 Taxes:				
1110 Ad valorem taxes	\$ 248,876	\$ 248,876	\$ 210,190	\$ (38,686)
1120 Prior year's ad valorem taxes	500	500	284	(216)
1190 Penalties and interest on taxes	400	400	204	(196)
1500 Earnings on investments and deposits	250	250	369	119
1900 Other revenue from local sources:				
1970 Charges for services	200	200	171	(29)
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	-	-	37	37
	<u>250,226</u>	<u>250,226</u>	<u>211,255</u>	<u>(38,971)</u>
<b>Expenditures</b>				
1000 Instruction				
1200 Special programs:				
1220 Programs for special education	181,284	181,284	174,320	6,964
2000 Support services				
2100 Pupils:				
2140 Psychological	7,684	7,684	7,684	-
2150 Speech pathology	18,040	18,040	18,040	-
2170 Student therapy services	8,000	8,000	4,454	3,546
2700 Support services - special education:				
2710 Administrative costs	16,649	16,649	16,534	115
2730 Transportation costs	600	600	-	600
2740 Mileage to parents	600	600	-	600
	<u>232,857</u>	<u>232,857</u>	<u>221,032</u>	<u>11,825</u>
Net Change in Fund Balances	17,369	17,369	(9,777)	(27,146)
Fund Balance - Beginning	<u>224,402</u>	<u>224,402</u>	<u>224,402</u>	<u>-</u>
Fund Balance - Ending	<u><u>\$ 241,771</u></u>	<u><u>\$ 241,771</u></u>	<u><u>\$ 214,625</u></u>	<u><u>\$ (27,146)</u></u>

Warner School District 6-5  
 Budgetary Comparison Schedule – Budgetary Basis – Pension Fund  
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources:				
1500 Earnings on investments and deposits	\$ -	\$ -	\$ 2,993	\$ 2,993
Total expenditures	-	-	-	-
Excess of Revenues over Expenditures	-	-	2,993	2,993
Other Financing Sources (Uses)				
8110 Transfers out	(100,000)	(100,000)	-	100,000
Net Change in Fund Balances	(100,000)	(100,000)	2,993	102,993
Fund Balance - Beginning	344,968	344,968	344,968	-
Fund Balance - Ending	\$ 244,968	\$ 244,968	\$ 347,961	\$ 102,993

### **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 presents capital outlay expenditures as a separate function.

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

#### **Budgets and Budgetary Accounting**

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

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

Warner School District 6-5  
Schedule of Employer's Share of Net Pension Liability (Asset)  
Year Ended June 30, 2018

Pension Plan	Fiscal Year Ending	Employer's Percentage of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2018	0.0763%	\$ (6,929)	\$ 1,551,708	-0.4%	100.1%
SDRS	6/30/2017	0.0718%	242,540	1,365,316	17.8%	96.9%
SDRS	6/30/2016	0.0701%	(297,184)	1,279,271	-23.2%	104.1%
SDRS	6/30/2015	0.0765%	(551,358)	1,338,274	-41.2%	107.3%

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

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

Warner School District 6-5  
Schedule of Employer's Contributions  
Year Ended June 30, 2018

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	6/30/2018	\$ 94,900	\$ 94,900	\$ -	\$ 1,581,664	6.0%
SDRS	6/30/2017	93,102	93,102	-	1,551,708	6.0%
SDRS	6/30/2016	81,919	81,919	-	1,365,316	6.0%
SDRS	6/30/2015	76,756	76,756	-	1,279,271	6.0%

\*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the 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.

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



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

The School Board  
Warner School District 6-5  
Warner, 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 Warner School District 6-5 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Warner School District 6-5’s basic financial statements, and have issued our report thereon dated December 11, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Warner School District 6-5’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 Warner School District 6-5’s internal control. Accordingly, we do not express an opinion on the effectiveness of Warner School District 6-5’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings we identified 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 auditor’s comments as item 2018-A and 2018-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 Warner School District 6-5's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **School District's Response to Findings**

Warner School District 6-5's response to the findings identified in our audit is described in the accompanying schedule of findings. Warner School District 6-5's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota  
December 11, 2018

## **Current Audit Findings and Recommendations**

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

#### **Material Weakness**

*Criteria:* An organization's internal control structure should provide for the recording of all necessary material adjustments and the preparation of financial statements and footnotes in accordance with generally accepted accounting principles.

*Condition:* Warner School District 6-5 does not have an internal control system designed to provide for the preparation of the financial statements being audited, including required footnotes and disclosures and all necessary material audit adjustments, in accordance with generally accepted accounting principles.

*Cause:* The School District does not have adequate staff trained to prepare the financial statements and footnotes.

*Effect:* This condition may affect the School District's ability to 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.

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

### **Finding 2018-B Lack of Segregation of Duties**

#### **Material Weakness**

*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.

*Condition:* Warner School District 6-5 has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in expenditures and payroll functions because of a lack of segregation of duties.

*Cause:* The School District has insufficient number of staff to adequately separate duties in all areas.

*Effect:* This condition increases the risk that fraud or errors might occur and not be detected in the financial reporting process.

*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.

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