



Financial Statements  
June 30, 2020

# Faith School District No. 46-2

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School Board President	Scott Vance
School Board Vice-President	Noma Welter
School Board Members	Justin Haines Lynn Halligan Kevin Groves
Superintendent	Kelly Daughters
Business Manager	Amie Schauer



## Independent Auditor's Report

Members of the School Board  
Faith School District No. 46-2  
Meade County, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Faith School District No. 46-2, Meade County, South Dakota (the School District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Faith School District No. 46-2, as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, and the schedule of employer's share of net pension liability (asset) and employer's contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's financial statements. The school district officials listing is presented for purposes of additional analysis and is not a required part of the financial statements. The school district officials listing has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2021, 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  
February 3, 2021

This section of Faith School District 46-2's annual financial report presents our discussion and analysis of the School District's financial performance during the fiscal year ended on June 30, 2020. Please read it in conjunction with the School District's financial statements, which follow this section.

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

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the School District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School District government, reporting the School District's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
  - Fiduciary fund statements provide information about the financial relationships – such as the Class of 2020, or the Athletic Fund - in which the School District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

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

**Figure A-1  
 Major Features of Faith School District’s Government-wide and Fund Financial Statements**

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

**Government-Wide Statements**

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

The two government-wide statements report the School District’s net position and how they have changed. Net position – the difference between the School District’s assets and deferred outflows of resources, and liabilities and deferred inflows of resources – are one way to measure the School District’s financial health or position.

- Increases or decreases in the School District’s net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School District you need to consider additional non-financial factors such as changes in the School District’s property tax base and changes in the School District’s state aid funding formula from the State of South Dakota.
- Governmental Activities - This category includes the School District’s basic instructional services, such as elementary, middle and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, Student Council, Quiz Bowl, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.

## Fund Financial Statements

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

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

The School District has two kinds of funds:

- Governmental Funds – All of the School District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- Fiduciary Funds – The School District is the trustee, or fiduciary, for various external and internal parties. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the School District's government-wide financial statements because the School District cannot use these assets to finance its operations.

**Financial Analysis of the School District as a Whole**

**Net Position**

The School District's combined net position increased as follows:

**Table A-1  
Faith School District 46-2  
Statement of Net Position**

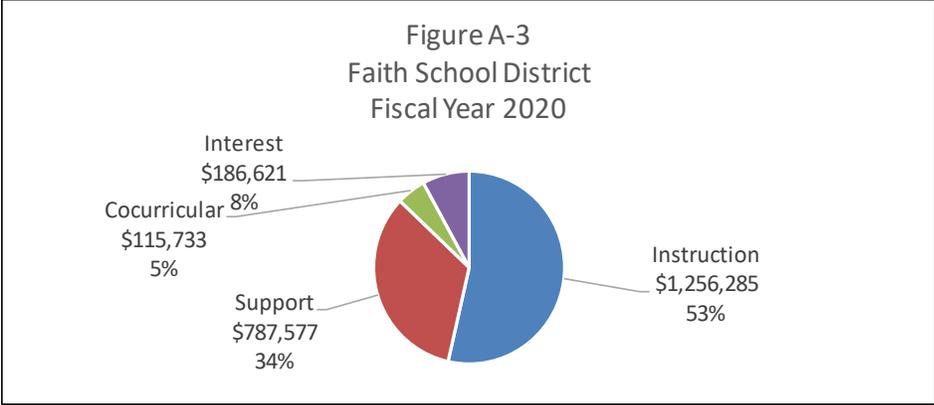
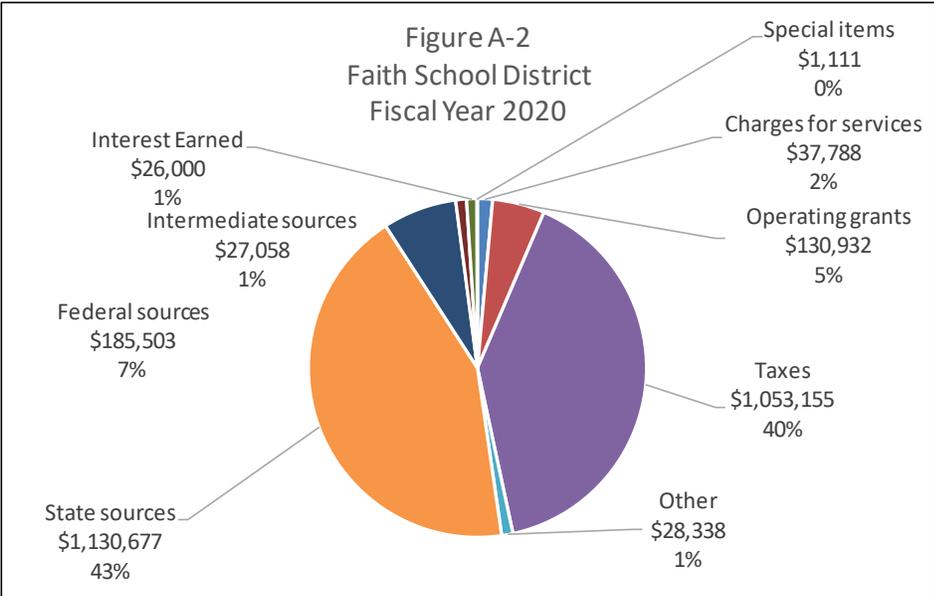
	2020	2019
<b>Assets</b>		
Current and other assets	\$ 4,433,365	\$ 3,937,248
Capital assets	4,828,549	4,901,022
Total assets	9,261,914	8,838,270
<b>Deferred outflows of resources</b>		
Pension plans	261,257	399,786
<b>Liabilities</b>		
Long-term debt outstanding	3,434,520	3,454,745
Other liabilities	169,652	155,498
Total liabilities	3,604,172	3,610,243
<b>Deferred inflows of resources</b>		
Pension plans	104,030	95,458
Taxes levied for future periods	562,267	553,999
Total deferred inflows of resources	666,297	649,457
<b>Net position</b>		
Net investment in capital assets	1,438,549	1,511,022
Restricted	3,157,217	2,887,132
Unrestricted	656,936	580,202
Total net position	\$ 5,252,702	\$ 4,978,356

The statement of net position reports all financial and capital resources. The statement presents the assets and deferred outflows of resources, and liabilities and deferred inflows of resources in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the School District, consisting of compensated absences payable, Qualified Zoning Academy Bonds Payable, Qualified School Construction Bonds Payable, and capital outlay certificates payable, have been reported on the statement of net position. The difference between the School District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources is its net position.

**Changes in Net Position**

The School District's total revenues totaled \$2,620,562. (See Table A-2.) Approximately 40% of the School District's revenue comes from property and other tax revenue, with another 43% coming from state aid. (See Figure A-2).

The School District's expenditures totaled \$2,346,216 with approximately 53% to instruction and 34% going to support services. The School District's expenses cover a range of services, encompassing instruction, support services, co-curricular, and interest expense. (See Figure A-3).



**Governmental Activities**

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

**Table A-2  
Faith School District 46-2  
Changes in Net Position**

	Total Governmental Activities 2020	Total Governmental Activities 2019
Revenues		
Program revenues		
Charges for services	\$ 37,788	\$ 38,547
Operating grants and contributions	130,932	111,987
General revenues		
Taxes	1,053,155	1,083,556
Other	28,338	26,556
Revenue state sources	1,130,677	1,107,581
Revenue federal sources	185,503	9,116
Revenue intermediate sources	27,058	180,799
Unrestricted investment earnings	26,000	34,570
Special items	1,111	-
Total revenues	2,620,562	2,592,712
Expenses		
Instruction	1,256,285	1,137,014
Support services	787,577	814,033
Cocurricular activities	115,733	103,650
Interest (unallocated)	186,621	198,610
Total expenses	2,346,216	2,253,307
Increase in Net Position	274,346	339,405
Net Position - Beginning of Year	4,978,356	4,638,951
Net Position - End of Year	\$ 5,252,702	\$ 4,978,356

Revenues for governmental activities were \$2,620,562, while total expenses amounted to \$2,346,216, an increase of \$274,346 in net position. The main reasons are:

- An increase state revenue sources.
- An increase in operating grants and contributions.
- A decrease in interest expenses.
- A decrease in support service expenses.

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

- In governmental funds, major fund balances changed as follows: General Fund increased \$60,223 due to an increase in grants-in-aid; Capital Outlay increased \$205,865 over 2019 due to less expenditures for pupil transportation as bus was purchased in prior year, as well as decreased expenses in operation and maintenance of plant; and Special Education increased \$19,545 due to stable revenues and expenditures during the year.

#### **Budgetary Highlights**

- Fiscal Year 2013 was the first year in the new school facility funded by 16-year 0% federal bonds.
- Faith School District staff base salary was increased from \$35,720 to \$36,045 based on the new funding formula which mandated average teacher salary and benefits total at least \$48,500.
- Enrollment is always a major factor. The lower the enrollment, the less State Aid.

#### **Net Pension Liability (Asset)**

The School District had a net pension asset of \$4,856 at June 30, 2020, due to the implementation of GASB Statement No.68, which required the reporting of the asset as well as the other pension amounts on the statement of net position.

#### **Capital Asset Administration**

By the end of fiscal year 2020 the School District had invested \$4,828,549 in a broad range of capital assets, including, land, buildings, and various machinery and equipment. (See Table A-3.) This amount represents a net decrease of \$72,473 (including additions and deletions) over last year resulting from the addition and deletion of equipment and net accumulated depreciation. See Note 4 for further information on capital assets.

**Table A-3**  
**Faith School District 46-2**  
**Capital Assets (Net of Depreciation)**

	Governmental Activities	
	2020	2019
Land	\$ 17,377	\$ 17,377
Buildings (net)	4,572,848	4,645,326
Machinery and equipment (net)	238,324	238,319
Total capital assets (net)	\$ 4,828,549	\$ 4,901,022

**Long-Term Debt**

During fiscal year 2011, Qualified School Construction Bonds for the new school were acquired as debt. During fiscal year 2005, Qualified Zoning Academy Bonds and a loan from the US Department of Agriculture were acquired as debt. At year-end the School District had \$3,434,520 in net Capital Outlay Certificates and other long-term obligations. See Table A-4 below.

**Table A-4**  
**Faith School District 46-2**  
**Outstanding Debt and Obligations**

	Governmental Activities		Change	Change
	2020	2019	2019-2020	2019-2020
Compensated absences	\$ 44,520	\$ 41,296	\$ 3,224	7.81%
SD SDBF assessment	-	23,449	(23,449)	-100.00%
Capital outlay certificates/ QZAB/QSCB	3,390,000	3,390,000	-	0.00%
Total outstanding debt and obligations	\$ 3,434,520	\$ 3,454,745	\$ (20,225)	-0.59%

The School District is liable for the accrued vacation leave payable to 12-month contracts of the superintendent, business manager, and head secretary. Accumulated sick leave of 30 days per qualifying employee is also included here. This increase is the result of the value of the days paid out in accumulated sick leave and vacation leave.

The Qualified School Construction Bonds were awarded in the amount of \$3,340,000 at a rate of 0% for 16 years. The transitions projects were funded through a Qualified Zoning Academy Bond, or QZAB. These dollars, awarded in June 2005, are a federal loan in the amount of \$50,000 at 0% interest over 16 years, with the total to be repaid being only \$44,219, 88.5% of the original award.

See Note 5 for further information on long-term debt.

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

The School District's current economic position has shown a shift with both an increase to assets and liabilities with the condemnation of our buildings, the purchase of the modular units in 2004 and the eventual building of the new school in 2012. An increase in property valuation allows the School District the ability to increase the amount of revenue generated from property taxes; however, the total amount that can be levied is limited by the State of South Dakota. That levy amount has steadily decreased from \$1.512 in 2018 (payable 2019) to \$1.473 in 2019 (payable 2020) each year. This has caused many districts in the State of South Dakota to Opt-Out of the tax limitation. Capital Outlay revenues will be held to the previous year's dollar amounts plus growth (if any) rather than based on the land valuation itself. A maximum Special Education levy of \$1.616/1,000 remains in place. The School District passed a \$3 million bond issued to authorized additional taxes to be levied in order to pay for the new building built in 2012.

The recent funding formula change is based on a 12:1 certified teacher-student ratio with a target certified teacher salary and benefits package of at least \$48,500. School districts will receive funding based on the number of students enrolled in their districts on the last Friday in September. In 2007, a Sparsity Factor was added to the funding formula. The Sparsity Factor added an additional \$110,000 to the School District's fiscal year 2020 state aid payment; however, the limit on the amount of the Sparsity Factor paid is \$110,000, and possibly less, depending on how and if the legislature decides to appropriate the funding. Thus, the further the drop in enrollment combined with additional schools meeting the qualifying criteria will result in less revenue for the School District to receive.

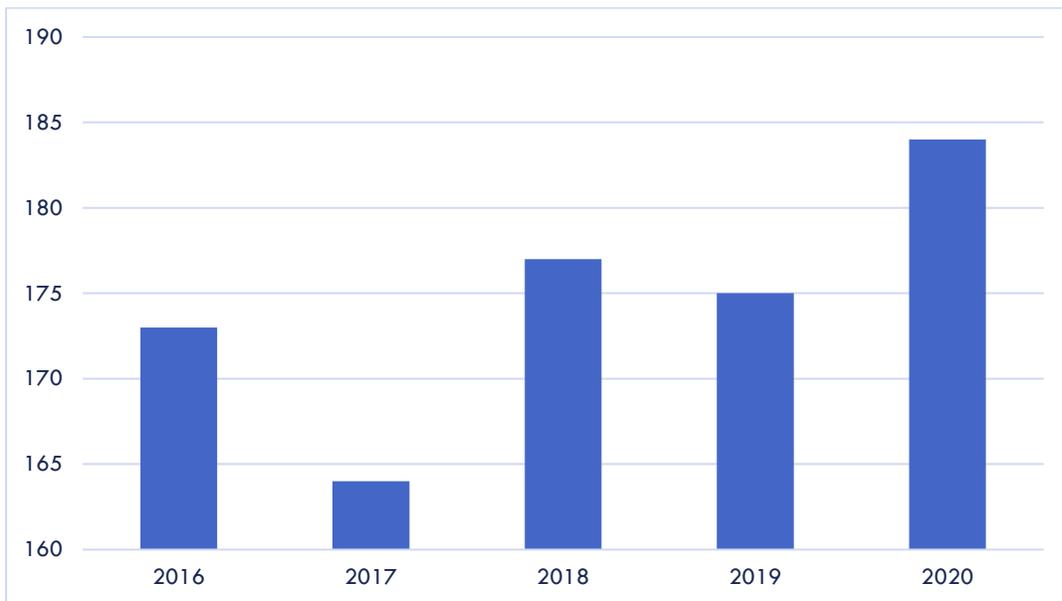
On March 13, 2020 Governor Noem announced that schools would be closed for one week to "deep clean" due to COVID-19. That one week was extended and on April 6, 2020 she announced that schools would be closed for the remainder of the school year. During that time our staff and students went to remote learning. The Faith School District 46-2 is a one-to-one school which means each of our students in grades 4-12 had either their own Chromebook or laptop to take home with them. The teachers utilized Google Classroom and Zoom in order to teach the remainder of the school year. Because we were already a one-to-one district, the financial impacts of COVID-19 during FY20 were not as profound as many other districts.

When and if we were going to be able to return to class and what form that might be was an unknown impact of COVID-19 for FY21. The Federal Government has tried to lessen the impact by providing additional funding to schools through the Elementary and Secondary Schools Emergency Relief (ESSER) funds and CARES Act funding in addition to allowing for an extension to the Seamless Summer Option for Food Service which allows all of our students to eat free of charge.

During FY21 the Faith School utilized the funding to purchase an air purifying system for our HVAC unit in order to help combat the virus and its spread. We also gave families the option to return to class in person or online. We purchased additional Promethean boards and technology for the classrooms to allow for easier transition and instruction online and the professional development to go along with it. Other items such as cleaning supplies and “touchless” water fountains were also purchased. Our staff members have been affected by COVID-19 and our ESSER funds have been utilized to pay for substitute wages.

One of the biggest questions the district faced was the number of students who would return in the fall and whether or not the enrollment numbers would fall which would impact our State Aid funding in FY21. Fortunately, we have seen an increase in enrollment for FY21. The District continues to work to ensure a safe environment for all of our staff and students.

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



### Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Faith School District 46-2; PO Box 619; Faith, SD 57626.

Faith School District No. 46-2  
Statement of Net Position – Exhibit I  
June 30, 2020

	Governmental Activities
<b>Assets</b>	
Cash	\$ 1,931,524
Taxes receivable	472,337
Inventories	2,101
Other receivables	91,218
Restricted cash	1,931,329
Net pension asset	4,856
Capital assets, not being depreciated	
Land	17,377
Capital assets, net of accumulated depreciation	
Buildings	4,572,848
Machinery and equipment	238,324
<b>Total assets</b>	<b>9,261,914</b>
<b>Deferred outflows of resources</b>	
Pension plans	261,257
<b>Liabilities</b>	
Interest payable	40,607
Other current liabilities	129,045
Noncurrent liabilities	
Due within one year	
Bonds	50,000
Compensated absences	15,000
Due in more than one year	
Bonds	3,340,000
Compensated absences	29,520
<b>Total liabilities</b>	<b>3,604,172</b>
<b>Deferred Inflows of Resources</b>	
Pension plans	104,030
Taxes levied for future periods	562,267
<b>Total deferred inflows of resources</b>	<b>666,297</b>
<b>Net Position</b>	
Net investment in capital assets	1,438,549
Restricted for	
Capital Outlay	967,830
Special Education	108,761
Debt Service	1,916,442
Food Service	2,101
SDRS Pension Plan	162,083
Unrestricted	656,936
<b>Total net position</b>	<b>\$ 5,252,702</b>

Faith School District No. 46-2  
Statement of Activities – Exhibit II  
Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Primary Government					
Governmental activities					
Instruction	\$ 1,256,285	\$ -	\$ 106,383	\$ -	\$ (1,149,902)
Support services	787,577	17,679	24,549	-	(745,349)
Cocurricular activities	115,733	20,109	-	-	(95,624)
*Interest on Long-term Debt	186,621	-	-	-	(186,621)
Total Primary Government	<u>\$ 2,346,216</u>	<u>\$ 37,788</u>	<u>\$ 130,932</u>	<u>\$ -</u>	<u>(2,177,496)</u>
General Revenues					
Taxes					
Property taxes					
1,053,155					
Other					
28,338					
Revenue from state sources					
State aid					
1,130,677					
Revenue from federal sources					
185,503					
Unrestricted investment earnings					
26,000					
Other general revenues					
27,058					
Special items					
1,111					
<u>2,451,842</u>					
Total general revenues and special items					
2,451,842					
Change in Net Position					
274,346					
Net Position - June 30, 2019					
4,978,356					
Net Position - June 30, 2020					
<u>\$ 5,252,702</u>					

\*This amount includes indirect interest expense on general long-term debt.

Faith School District No. 46-2  
Balance Sheet – Governmental Funds – Exhibit III  
June 30, 2020

	General Fund	Special Revenue Funds		Debt Service	Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education			
<b>Assets</b>						
101 Cash and cash equivalents	\$ 798,340	\$ 992,960	\$ 132,263	\$ 3,980	\$ 3,981	\$ 1,931,524
104 Cash with fiscal agent	-	-	-	1,931,329	-	1,931,329
110 Taxes receivable--current	117,538	157,193	92,653	98,035	-	465,419
112 Taxes receivable--delinquent	2,553	1,972	1,123	1,270	-	6,918
120 Accounts receivable, net	2,882	-	-	-	-	2,882
130 Due from Debt Service Fund	3,000	-	-	-	-	3,000
140 Due from other governments	56,098	3,662	2,159	2,317	-	64,236
150 Advance to Agency Fund	22,873	-	1,227	-	-	24,100
170 Inventory	-	-	-	-	2,101	2,101
<b>Total assets</b>	<b>\$ 1,003,284</b>	<b>\$ 1,155,787</b>	<b>\$ 229,425</b>	<b>\$ 2,036,931</b>	<b>\$ 6,082</b>	<b>\$ 4,431,509</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>						
<b>Liabilities</b>						
402 Accounts payable	\$ 26,278	\$ -	\$ 2,215	\$ -	\$ 350	\$ 28,843
404 Contracts payable	80,931	-	-	-	3,950	84,881
410 Due to General Fund	-	-	-	3,000	-	3,000
450 Payroll deductions and withholdings and employer matching payable	3,782	-	7,786	-	3,753	15,321
<b>Total liabilities</b>	<b>110,991</b>	<b>-</b>	<b>10,001</b>	<b>3,000</b>	<b>8,053</b>	<b>132,045</b>
<b>Deferred Inflows of Resources</b>						
551 Unavailable revenue - property taxes	2,553	1,972	1,123	1,270	-	6,918
551 Taxes levied for future periods	146,158	187,957	110,663	117,489	-	562,267
<b>Total deferred inflows of resources</b>	<b>148,711</b>	<b>189,929</b>	<b>111,786</b>	<b>118,759</b>	<b>-</b>	<b>569,185</b>
<b>Fund Balances</b>						
710 Nonspendable	22,873	-	1,227	-	2,101	26,201
720 Restricted						
Debt Service	-	-	-	1,915,172	-	1,915,172
Capital Outlay	-	965,858	-	-	-	965,858
Special Education	-	-	106,411	-	-	106,411
760 Unassigned	720,709	-	-	-	(4,072)	716,637
<b>Total fund balances</b>	<b>743,582</b>	<b>965,858</b>	<b>107,638</b>	<b>1,915,172</b>	<b>(1,971)</b>	<b>3,730,279</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,003,284</b>	<b>\$ 1,155,787</b>	<b>\$ 229,425</b>	<b>\$ 2,036,931</b>	<b>\$ 6,082</b>	<b>\$ 4,431,509</b>

See Notes to Financial Statements

Total Fund Balances - Governmental Funds			\$ 3,730,279
Amounts reported for governmental activities in the statement of net position are difference because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			4,828,549
Assets, such as taxes receivable, that are not available to pay for current period expenditures are deferred inflows in the fund level statements.			6,918
Deferred outflows and inflows of resources related to pensions are components of pension liability (asset) and, therefore, are not reported in the funds.			157,227
The net pension asset reported in governmental activities is not an available financial resource and, therefore, is not reported in the funds.			4,856
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			
Interest payable	\$	(40,607)	
Capital outlay certificates		(340,000)	
Bonds		(3,050,000)	
Compensated absences		(44,520)	
			<u>(3,475,127)</u>
Net Position - Governmental Activities			<u>\$ 5,252,702</u>

Faith School District No. 46-2

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V  
Year Ended June 30, 2020

	General Fund	Special Revenue Funds		Debt Service	Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education			
<b>Revenues</b>						
1000 Revenue from local sources						
1100 Taxes						
1110 Ad valorem taxes	\$ 276,373	\$ 349,891	\$ 202,497	\$ 218,822	\$ -	\$ 1,047,583
1120 Prior years' ad valorem taxes	968	708	393	483	-	2,552
1140 Utility taxes	28,338	-	-	-	-	28,338
1190 Penalties and interest on taxes	1,332	1,015	593	770	-	3,710
1500 Earnings on investments and deposits	3,277	1,879	227	20,556	61	26,000
1600 Food service	-	-	-	-	17,679	17,679
1700 Cocurricular activities						
1710 Admissions	17,718	-	-	-	-	17,718
1790 Other student activity income	2,391	-	-	-	-	2,391
1900 Other revenue from local sources						
1920 Contributions and donations	974	-	-	-	-	974
1950 Refund of prior years' expenditures	363	3,395	-	-	-	3,758
1990 Other	2,499	-	-	-	-	2,499
2000 Revenue from intermediate sources						
2100 County sources						
2110 County apportionment	16,117	-	-	-	-	16,117
3000 Revenue from state sources						
3110 Unrestricted grants-in-aid	1,130,677	-	-	-	-	1,130,677
3810 State reimbursements	-	-	-	-	179	179
4000 Revenue from federal sources						
4120 Unrestricted grants-in-aid received from federal government through the state	8,434	-	-	-	-	8,434
4140 Restricted grants-in-aid received directly from Federal government	16,240	5,501	-	-	-	21,741
4150-4199 Restricted grants-in-aid received from federal government through the state	91,898	14,485	-	-	-	106,383
4810 Federal reimbursements	-	-	-	-	20,849	20,849
4820 Donated food	-	-	-	-	3,521	3,521
4900 Other federal revenue	-	-	-	155,328	-	155,328
Total revenue	<u>1,597,599</u>	<u>376,874</u>	<u>203,710</u>	<u>395,959</u>	<u>42,289</u>	<u>2,616,431</u>

Faith School District No. 46-2

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V  
Year Ended June 30, 2020

	General Fund	Special Revenue Funds		Debt Service	Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education			
Expenditures						
Current						
1000 Instruction						
1110 Elementary	364,562	3,976	-	-	-	368,538
1120 Middle/junior high	112,910	1,136	-	-	-	114,046
1130 High school	365,405	2,272	-	-	-	367,677
1200 Special programs						
1220 Programs for special education	-	-	123,648	-	-	123,648
1270 Educationally deprived	75,133	-	-	-	-	75,133
2000 Support services						
2120 Guidance	12,086	-	-	-	-	12,086
2130 Health	1,132	-	-	-	-	1,132
2150 Speech pathology	-	-	3,591	-	-	3,591
2160 Audiology services	-	-	915	-	-	915
2170 Student therapy services	-	-	18,582	-	-	18,582
2200 Support services - instructional staff						
2210 Improvement of instruction	1,236	-	-	-	-	1,236
2220 Educational media	63,951	-	-	-	-	63,951
2300 Support services - general administration						
2310 Board of Education	31,821	-	-	-	-	31,821
2320 Executive administration	52,635	-	-	-	-	52,635
2400 Support services - school administration						
2410 Office of the Principal	57,043	-	-	-	-	57,043
2440 Title I Director	4,430	-	-	-	-	4,430
2490 Other	55,963	-	-	-	-	55,963
2500 Support services - business						
2520 Fiscal services	59,351	-	-	-	-	59,351
2540 Operation and maintenance of plant	200,738	71,099	-	-	-	271,837
2550 Pupil transportation	33,490	-	-	-	-	33,490
2560 Food service	-	-	-	-	57,380	57,380
2700 Support services - special education						
2710 Administrative costs	-	-	37,202	-	-	37,202
5000 Debt services	-	-	-	210,070	-	210,070

Faith School District No. 46-2

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V  
Year Ended June 30, 2020

	General Fund	Special Revenue Funds		Debt Service	Other Governmental Funds	Total Governmental Funds
	<u>General Fund</u>	<u>Capital Outlay</u>	<u>Special Education</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
6000 Cocurricular activities						
6100 Male activities	28,973	-	-	-	-	28,973
6200 Female activities	25,006	-	-	-	-	25,006
6500 Transportation	27,587	-	-	-	-	27,587
6900 Combined activities	25,460	-	-	-	-	25,460
Capital outlay	-	21,785	-	-	-	21,785
	<u>1,598,912</u>	<u>100,268</u>	<u>183,938</u>	<u>210,070</u>	<u>57,380</u>	<u>2,150,568</u>
Total expenditures						
Excess of revenue over (under) expenditures	(1,313)	276,606	19,772	185,889	(15,091)	465,863
Other Financing Sources (Uses)						
5110 Transfers in	71,291	-	-	28,862	9,755	109,908
8110 Transfers out	(9,755)	(70,741)	(227)	-	(29,185)	(109,908)
Total other financing sources (uses)	61,536	(70,741)	(227)	28,862	(19,430)	-
5150 Special Items	-	-	-	-	1,111	1,111
Net Change in Fund Balances	60,223	205,865	19,545	214,751	(33,410)	466,974
Fund Balance - June 30, 2019	683,359	759,993	88,093	1,700,421	31,439	3,263,305
Fund Balance - June 30, 2020	<u>\$ 743,582</u>	<u>\$ 965,858</u>	<u>\$ 107,638</u>	<u>\$ 1,915,172</u>	<u>\$ (1,971)</u>	<u>\$ 3,730,279</u>

Faith School District No. 46-2

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities – Exhibit VI  
Year Ended June 30, 2020

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Net Change in Fund Balances - Total Governmental Funds	\$ 466,974
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. This amount represents capital asset purchases which are reported as expenditures on the fund financial statements, but increase assets on the government wide statements.	21,785
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	(94,258)
Governmental funds report property taxes as revenue in the period for which the tax is levied, subject to availability, but the statement of activities includes the property taxes as revenue in the period for which the taxes are levied, regardless of when collections occurs.	3,020
Principal payments on long-term liabilities are an expenditure in the governmental funds, but the payments decrease long-term liabilities in the statement of net position.	23,449
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the year. Amounts of compensated absences earned by employees are not recongized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn compensated absences.	(3,224)
In the statement of activities, the cost of pension benefits earned net of employee contributions is reported in pension expense. In the governmental funds, however, the contributions are reported as expense.	<u>(143,400)</u>
Change in Net Position of Governmental Activities	<u>\$ 274,346</u>

Faith School District No. 46-2  
Statement of Fiduciary Net Position – Fiduciary Funds – Exhibit VII  
June 30, 2020

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	<u>Agency Funds</u>
Assets	
Cash	<u>\$ 91,735</u>
Liabilities	
Amounts held for others	\$ 67,635
Advance from General Fund	22,873
Advance from Special Education Fund	<u>1,227</u>
Total liabilities	<u>\$ 91,735</u>

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

The accounting policies of the Faith School District No. 46-2 conform to generally accepted accounting principles applicable to governmental entities in the United States of America.

### **Reporting Entity**

The reporting entity of the Faith School District No. 46-2 (the School District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

The School District participates in a cooperative service unit with six other school districts, Northwest Area Schools Cooperative (see detailed note entitled "Joint Ventures" for specific disclosures). Joint Ventures do not meet the criteria for inclusion in the financial reporting entity 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 Statements**

The statement of net position and statement of activities display information about the School District as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The statement of net position reports all financial and capital resources, in a net position form (assets plus deferred outflows of resources minus liabilities minus 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, 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 reporting entity 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, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expense. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. 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 and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type; and
2. Total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental combined; or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistence in reporting from year-to-year or because of public interest in the fund’s operations.

The major funds of the School District financial reporting entity are described below within their respective fund types:

	Description
General Fund	The general fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund. The general fund is always a major fund.
Special Revenue Funds: Special Education Fund	A fund established by South Dakota Codified (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 property taxes.

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

Debt Service Fund                        This fund is used to account for the sinking fund accounts restricted to use for the payment of principal on the Series 2005 Qualified Zoning Academy Bonds, Capital Outlay Certificates and 2010 Qualified School Construction Bonds.

### **Fiduciary Funds**

Agency Funds – 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 various classes, clubs, and other student organizations.

### **Interfund Eliminations**

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. In order to eliminate the grossing-up effect on the assets and liabilities within the governmental funds the advances between funds have been eliminated.

### **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, governmental activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

#### **Fund Financial Statements**

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

## **Basis of Accounting**

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

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

### **Fund Financial Statements**

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected, or to be collected, soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and, for the School District, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2020, are revenues from federal, state, and local sources.

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

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 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.

### **Deposits and Investments**

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

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

**Inventory**

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list (average for the year).

In the government-wide financial statements and in the fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed. In the governmental fund financial statements, the “consumption method” of recording inventory is used.

**Capital Assets**

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

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 acquisition value on the date donated. Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with net capital assets reflected in the statement of net position. Capitalization thresholds (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 are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land*	\$ 1,000	N/A	N/A
Buildings	50,000	Straight-line	50-80 years
Machinery/equipment	3,500	Straight-line	5-20 years

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

**Fund Financial Statements**

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

**Long-Term Liabilities**

The accounting treatment of long-term liabilities used in governmental fund operations are reported in the government-wide statements.

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities consist, primarily, of compensated absences, capital outlay certificates payable, and QZAB and QSCB bonds payable.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenues and payments of principal and interest are reported as expenditures when they become due.

Annual leave is earned by the administrative and support staff employees at the rate of two to four weeks per year. Upon termination, employees are entitled to receive compensation for their accrued annual leave balance, up to 30 days, on the basis of the current pay.

Sick leave is earned by the employees at the rate of 5 to 14 days per year, accumulative to 30 days. Upon termination, certified employees (employed for three years or more) are entitled to receive compensation for their accrued sick leave balance on the basis of \$30 per day up to a maximum of 30 days.

As of June 30, 2020, a liability of \$44,520 existed for accumulated unpaid leave balance (annual and sick) calculated at \$30 per unused leave day (above 30 days) and the employees' June 30, 2020 pay rates.

#### **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 (expenses/expenditure) until then. The School District has two items that qualify for reporting in this category. The School District reports contributions made to pension plans after the measurement date and prior to the fiscal year-end and changes in the net pension liability (asset) not included in pension expense (revenue) reported in the government-wide statement of net position as deferred outflows of resources.

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 qualifies for reporting in this category. The School District reports unavailable revenues from property taxes on the government-wide statement of net position and the government funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is changes in the net pension liability (asset) not included in pension expense (revenue) reported in the government-wide statement of net position as a deferred inflow of resources.

#### **Pensions**

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

### **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.

### **Equity Classifications**

#### **Government-wide Statements**

Net position represents the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources in the School District's government-wide financial statements, and is displayed in three components:

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

#### **Restricted and Unrestricted Resources**

It is the School District's policy to first apply restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

### Fund Balance Classification Policies and Procedures

The School District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the 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 nonspendable fund balance is comprised of amounts not in cash form such as advances made to agency funds and inventory.

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

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

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Capital Outlay Fund	Property Taxes
Special Education Fund	Property Taxes

**Note 2 - Deposits and Investments Credit Risk, Concentration 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 below:

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 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA,” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost plus interest if the account is of the add-on type. State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District’s policy is to credit all income from deposits and investments to the General Fund, except for the private-purpose trust fund(s) which retains its investment income. U.S. GAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

Custodial Credit Risk-Deposits – Custodial credit risk is the risk that, in the event of a bank failure, the School District’s deposits may not be returned. The School District’s deposit policy requires deposits in excess of the depository insurance maximum 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. The School District’s deposits are insured and collateralized by the South Dakota Public Deposit Protection Collateral Program. All deposits are held at First National Bank in Faith. As of June 30, 2020, the financial institution that holds the School District’s deposits was properly collateralized.

**Restricted Cash and Investments**

The School District’s restricted cash for debt service are as follows:

2005 QZAB Redemption Bond	\$ 46,196
2010 QSCB Bond Sinking Fund	1,688,778
2010 QSCB Redemption Certificates	<u>196,355</u>
 Total restricted cash	 <u><u>\$ 1,931,329</u></u>

As of June 30, 2020, the School District had \$1,885,134 which was held in the South Dakota Public Fund Investment Trust Government Cash Reserve Fund (SD FIT GCR). SD FIT GCR is an unrated, external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts, and counties.

The net asset value of the SD FIT GCR is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

	Amortized Cost	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
SD FIT GCR	1,885,134	\$ -	Daily	Daily

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

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

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

**Credit Risk** – State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices. As of June 30, 2020, the School District's investments in the SD FIT GCR was unrated.

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

### **Note 3 - Property Tax**

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

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

**Note 4 - Changes in Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2020, is as follows:

**Governmental Activities**

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2020</u>
Capital assets, not being depreciated				
Land	\$ 17,377	\$ -	\$ -	\$ 17,377
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>17,377</u>	<u>-</u>	<u>-</u>	<u>17,377</u>
Capital assets, being depreciated				
Buildings	5,260,649	-	-	5,260,649
Machinery/equipment	558,653	21,785	-	580,438
Total capital assets being depreciated	<u>5,819,302</u>	<u>21,785</u>	<u>-</u>	<u>5,841,087</u>
Less accumulated depreciation for				
Buildings	(615,323)	(72,478)	-	(687,801)
Machinery/equipment	(320,334)	(21,780)	-	(342,114)
Total accumulated depreciation	<u>(935,657)</u>	<u>(94,258)</u>	<u>-</u>	<u>(1,029,915)</u>
Total capital assets being depreciated, net	<u>4,883,645</u>	<u>(72,473)</u>	<u>-</u>	<u>4,811,172</u>
Governmental type activity capital assets, net	<u>\$ 4,901,022</u>	<u>\$ (72,473)</u>	<u>\$ -</u>	<u>\$ 4,828,549</u>

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 60,619
Support services	24,932
Co-curricular activities	<u>8,707</u>
Total depreciation expense - governmental	<u>\$ 94,258</u>

**Note 5 - Long-Term Liabilities**

A summary of the changes in long-term liabilities follows:

**Governmental Activities**

	Bonds Payable					Total
	Capital Outlay Certificate	QZAB	QSCB	Compensated Absences	SD SDBF Assessment	
Long-term liabilities payable, July 1, 2019	\$ 340,000	\$ 50,000	\$ 3,000,000	\$ 41,296	\$ 23,449	\$ 3,454,745
Payments of debt obligations	-	-	-	-	(23,449)	(23,449)
Increase in compensated absences	-	-	-	3,224	-	3,224
Long-term liabilities payable, June 30, 2020	<u>340,000</u>	<u>50,000</u>	<u>3,000,000</u>	<u>44,520</u>	<u>-</u>	<u>3,434,520</u>
Current liabilities, due within one year	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>65,000</u>
Noncurrent liabilities, due in more than one year	<u>\$ 340,000</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$ 29,520</u>	<u>\$ -</u>	<u>\$ 3,369,520</u>

Compensated absences for governmental activities typically have been liquidated from the General Fund. The capital outlay certificate and QZAB bonds are paid from property taxes from the Capital Outlay Fund. The QSCB bonds are paid from property taxes from its own Debt Service Fund.

Series 2010 Capital Outlay Certificates are due October 20, 2027. No payment on principal is due until that time. However, semi-annual interest payments are required for the Series 2010 certificates at a rate of 6.25%. The annual payment requirements to maturity for the capital outlay certificate outstanding as of June 30, 2020, are as follows:

Year Ended June 30:	2010 Capital Outlay Certificate		
	Principal	Interest	Total
2021	\$ -	\$ 21,250	\$ 21,250
2022	-	21,250	21,250
2023	-	21,250	21,250
2024	-	21,250	21,250
2025	-	21,250	21,250
2026-2028	<u>340,000</u>	<u>53,125</u>	<u>393,125</u>
Totals	<u>\$ 340,000</u>	<u>\$ 159,375</u>	<u>\$ 499,375</u>

Series 2005 Qualified Zoning Academy Bonds are due June 29, 2021 and are interest free. The annual payment requirements to maturity for all qualified zoning academy bonds outstanding as of June 30, 2020, are as follows:

Year Ended June 30:	QZAB Bonds		
	Principal	Interest	Total
2021	\$ 50,000	\$ -	\$ 50,000

Series 2010 Qualified School Construction Bonds are due October 20, 2027. No payment on principal is due until that time. However semi-annual interest payments are required for the Series 2010 bonds at a rate of 6.25%. The annual payment requirements to maturity for all qualified school construction bonds outstanding as of June 30, 2020, are as follows:

Year Ended June 30:	QSCB Bonds		
	Principal	Interest	Total
2021	\$ -	\$ 187,500	\$ 187,500
2022	-	187,500	187,500
2023	-	187,500	187,500
2024	-	187,500	187,500
2025	-	187,500	187,500
2026-2028	3,000,000	468,750	3,468,750
Totals	\$ 3,000,000	\$ 1,406,250	\$ 4,406,250

#### Note 6 - Restricted Net Position

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

Fund	Restricted by	Amount
Capital Outlay	Law	\$ 967,830
Special Education	Law	108,761
Debt Service	Law	1,916,442
SDRS Pension Plan	Law	162,083
Food Service	Federal Regulation	2,101
Total restricted net position		\$ 3,157,217

**Note 7 - Interfund Transfers and Due from/to Other Funds**

Interfund transactions for the year ended June 30, 2020, were as follows:

	Transfer to			Total
	General Fund	Debt Service Fund	Other Governmental Funds	
Transfer from				
General Fund	\$ -	\$ -	\$ 9,755	\$ 9,755
Capital Outlay Fund	41,879	28,862	-	70,741
Special Education Fund	227	-	-	227
Other governmental funds	29,185	-	-	29,185
	\$ 71,291	\$ 28,862	\$ 9,755	\$ 109,908

SDCL 13-16-18 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 deposits and investments to the General Fund. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for the investment, a transfer to the designated fund is reported. These interfund transfers are not violations of the statutory regulations on interfund transfers.

The transfer from the Capital Outlay Fund to the Debt Service Fund was made to fund the sinking fund accounts for the QZAB bonds. The QZAB debt is an obligation legally required to be repaid from proceeds of the Capital Outlay Fund tax levy, but GAAP requires the use of a debt service fund to account for the accumulation of resources to make the future debt repayment. Accordingly, the reported transfer from the Capital Outlay Fund to the Debt Service Fund is reported to comply with GAAP, and it does not result in a violation of the statutory prohibition of transfers out of the Capital Outlay Fund.

All other interfund transfers made were to supplement various fund operations.

Interfund receivable and payable balances at June 30, 2020, were as follows:

Due From	Due to General Fund
Debt Service Fund	\$ 3,000

**Note 8 - Advance from/to Other Funds**

Advances from/to other funds for the year ended June 30, 2020, consisted of the following:

	Advance from General	Advance from Special Education
Agency Fund	\$ 22,873	\$ 1,227

The advance between the funds was made to cover the flex spending account paid for out of the Agency Fund to account for timing differences between the date employee payroll deductions are deposited in the account and the date withdrawals are made.

#### **Note 9 - Deficit Fund Balances**

As of June 30, 2020, the Food Service Fund, which is a nonmajor fund, had a deficit fund balance in the amount of (\$1,971). The School Board and management plans to make operating transfers to address the deficit fund balance as necessary in fiscal year 2021.

#### **Note 10 - Retirement Plan**

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer, defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in the 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 <https://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

#### **Benefits Provided**

SDRS has three different classes of employees: Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85, or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level.

Members that were hired on/after July 1, 2017 are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- 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 than 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, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater than 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. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2020, 2019, and 2018, were \$59,195, \$58,461, and \$61,765, respectively, equal to the required contributions each year.

### Pension Liability (Asset), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2019, SDRS is 100.09% 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, 2019 and reported by the School District as of June 30, 2020, are as follows:

Proportionate share of total pension liability	\$ 5,710,493
Less proportionate share of net position restricted for pension benefits	<u>5,715,349</u>
Proportionate share of net pension liability (asset)	<u>\$ (4,856)</u>

At June 30, 2020, the School District reported a liability (asset) of \$(4,856) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2019, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the School District's proportion was 0.0458225%, which was a decrease of 0.0036948% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the School District recognized pension expense of \$143,426. At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 19,048	\$ 2,198
Changes in assumption	167,711	68,753
Net difference between projected and actual earnings on pension plan investments	-	27,974
Changes in proportion and difference between School District contributions and proportionate share of contributions	15,303	5,105
School District contributions subsequent to the measurement date	59,195	-
Total	\$ 261,257	\$ 104,030

\$59,195 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:		
2021	\$	108,142
2022		(14,058)
2023		(7,220)
2024		11,168
Total	\$	98,032

**Actuarial Assumptions**

The total pension liability (asset) in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense
Future COLAs	1.88%

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, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 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 portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	2.0%	0.9%
Total	<u>100%</u>	

**Discount Rate**

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

**Sensitivity of Liability (Asset) to Change in the Discount Rate**

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

	1% Decrease	Current Discount Rate	1% Increase
School District's proportionate share of the net pension liability (asset)	\$ 805,989	\$ (4,856)	\$ (665,548)

**Pension Plan Fiduciary Net Position**

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

**Note 11 - Joint Ventures**

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

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

Dupree School District No. 64-2	12.50%
Faith School District No. 46-2	12.50%
Harding County School District No. 31-1	12.50%
Smee School District No. 15-3	12.50%
Tiospaye Topa School	12.50%
McIntosh School District No. 15-1	12.50%
McLaughlin School District No. 15-2	12.50%
Timber Lake School District No. 20-3	12.50%
	100.00%

The Co-op's governing board is composed of eight representatives, one from each member school district, who are school board members. The board is responsible for adopting the Co-op's budget and setting services fees at a level adequate to fund the adopted budget.

The School District retains no equity in the net position of the Co-op, but does have responsibility to fund deficits of the Co-op. As of June 30, 2020, this joint venture had fund equity of \$2,249,853 and liabilities of \$146,086.

Separate financial statements for this joint venture are available from the Northwest Area Schools Multi-District Education Cooperative.

## **Note 12 - Risk Management**

The School District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2020, the School District managed its risks as follows:

### **Employee Health Insurance**

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

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

At June 30, 2016, the South Dakota School District Health Benefits Fund had a deficit net position. During 2017, the Fund issued a fund-wide assessment to all the districts participating in the Fund to make up this deficit net position. The amount assessed to the School District was \$46,209, which the School District chose to pay in installments, with the final payment made in 2020. At June 30, 2020, the SDSDBF has a positive net position.

### **Liability Insurance**

The School District joined the Associated School Boards of South Dakota Property Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and to provide them with risk management services, loss control, and risk reduction information, and to obtain lower costs for that coverage. The School District's responsibility is to promptly report to, and cooperate with, the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the School District.

The School District pays an annual premium to provide liability coverage, detailed below, under a claims-made policy, and the premiums are accrued based on the ultimate cost of the experience-to-date of the ASBSD-PLF member, based on their exposure or type of coverage. The School District pays an annual premium to provide coverage related to crime, theft or damage to property, general liability, automobile liability, and boiler and machinery.

The agreement with ASBSD-PLF provides that the above coverage will be provided to a \$5,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for re-insurance for claims in excess of \$100,000 to the upper limit. The School District carries no deductible for general liability and automobile liability coverages, \$1,000 for crime and boiler and machinery, deductibles ranging from \$2,500 - \$10,000 for theft or damage to property, a \$5,000 defense only claims, and \$10,000 school board legal liability claims deductible for the school board legal liability coverage.

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

### **Workers 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 pool is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to, and cooperate with, the pool to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees under a retrospectively rated policy, and the premiums are accrued based on the ultimate cost of the experience to date of the pool members.

The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool-retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$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 during the past three years.

**Unemployment Benefits**

The School District provides for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

During the year ended June 30, 2020, there were no claims for unemployment benefits. At June 30, 2020, no claim had been filed for unemployment benefits and none are anticipated in the next fiscal year.

**Note 13 - Leases**

The District leases gymnasium space under a long-term lease agreement classified as an operating lease. The lease commenced in July 2018 and has a three-year term with semi-annual payments due of \$15,000. The District also leases a copier under an operating lease agreement. The lease commenced in June 2016 with a term of 63 months with monthly payments due of approximately \$616.

The following details the minimum lease payments due under these operating leases:

2021	\$	22,385
2022		<u>1,847</u>
	\$	<u><u>24,232</u></u>

The Capital Outlay Fund is responsible for making payments under these leases.

**Note 14 - Commitments and Contingencies**

During the year ending June 30, 2020, the School District has been impacted by the effects of the world-wide coronavirus pandemic. The School District is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of the issuance of these financial statements, the full impact to the School District's financial position is not known.



Required Supplementary Information  
June 30, 2020

## Faith School District No. 46-2

Faith School District No. 46-2  
 Budgetary Comparison Schedule – General Fund  
 Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1100 Ad valorem taxes	\$ 290,050	\$ 290,050	\$ 276,373	\$ (13,677)
1120 Prior years' ad valorem taxes	1,500	1,500	968	(532)
1140 Utility taxes	6,500	6,500	28,338	21,838
1190 Penalties and interest on taxes	1,500	1,500	1,332	(168)
1500 Earnings on investments and deposits	2,000	2,000	3,277	1,277
1700 Cocurricular activities				
1710 Admissions	17,950	17,950	17,718	(232)
1790 Other pupil activity income	2,000	2,000	2,391	391
1900 Other revenue from local sources				
1920 Contributions and donations	500	500	974	474
1950 Refund of prior years' expenditures	500	500	363	(137)
1990 Other	2,500	2,500	2,499	(1)
2000 Revenue from intermediate sources				
2100 County source				
2110 County apportionment	18,000	18,000	16,117	(1,883)
3000 Revenue from state sources				
3100 Grants-in-aid				
3110 Unrestricted grants-in-aid	1,117,600	1,117,600	1,130,677	13,077
4000 Revenue from federal sources				
4100 Grants-in-aid				
4120 Unrestricted grants-in-aid received from federal government through the state	10,000	10,000	8,434	(1,566)
4140 Restricted grants-in-aid received directly from federal government	17,043	17,043	16,240	(803)
4150-4199 Restricted grants-in-aid received from federal government through the state	97,672	97,672	91,898	(5,774)
Total revenue	<u>1,585,315</u>	<u>1,585,315</u>	<u>1,597,599</u>	<u>12,284</u>

Faith School District No. 46-2  
 Budgetary Comparison Schedule – General Fund  
 Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular program				
1110 Elementary	364,875	364,875	364,562	313
1120 Middle/junior high	113,100	113,100	112,910	190
1130 High school	348,350	365,575	365,405	170
1200 Special programs				
1270 Educationally deprived	75,620	75,620	75,133	487
2000 Support services				
2100 Pupils				
2120 Guidance	12,850	12,850	12,086	764
2130 Health	1,150	1,150	1,132	18
2200 Instructional staff				
2210 Improvement of instruction	1,300	1,300	1,236	64
2220 Educational media	64,615	64,615	63,951	664
2300 General administration				
2310 Board of Education	37,100	37,675	31,821	5,854
2320 Executive administration	54,600	54,600	52,635	1,965
2400 School administration				
2420 Office of the Principal	57,650	57,650	57,043	607
2440 Title I Director	4,435	4,435	4,430	5
2490 Other	58,155	58,155	55,963	2,192
2500 Business				
2520 Fiscal services	55,850	59,900	59,351	549
2540 Operation and maintenance of plant	210,425	210,425	200,738	9,687
2550 Pupil transportation	15,980	35,000	33,490	1,510
6000 Cocurricular activities				
6100 Male activities	29,450	31,450	28,973	2,477
6200 Female activities	24,170	26,320	25,006	1,314
6500 Transportation	32,250	32,250	27,587	4,663
6900 Combined activities	28,550	28,550	25,460	3,090
7000 Contingencies	45,020	45,020	-	-
Amount transferred	-	(45,020)	-	-
Total expenditures	<u>1,635,495</u>	<u>1,635,495</u>	<u>1,598,912</u>	<u>36,583</u>
Revenue over (under) expenditures	<u>(50,180)</u>	<u>(50,180)</u>	<u>(1,313)</u>	<u>48,867</u>

Faith School District No. 46-2  
 Budgetary Comparison Schedule – General Fund  
 Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources (Uses)				
5110 Transfers in	69,200	69,200	71,291	2,091
8110 Transfers out	(19,020)	(19,020)	(9,755)	9,265
Total other financing sources (uses)	<u>50,180</u>	<u>50,180</u>	<u>61,536</u>	<u>11,356</u>
Net Change in Fund Balance	-	-	60,223	60,223
Fund Balance - June 30, 2019	<u>683,359</u>	<u>683,359</u>	<u>683,359</u>	-
Fund Balance - June 30, 2020	<u>\$ 683,359</u>	<u>\$ 683,359</u>	<u>\$ 743,582</u>	<u>\$ 60,223</u>

Faith School District No. 46-2  
 Budgetary Comparison Schedule – Capital Outlay  
 Year Ended June 30, 2020

	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	\$ 365,100	\$ 365,100	\$ 349,891	\$ (15,209)
1120 Prior years' ad valorem taxes	1,500	1,500	708	(792)
1190 Penalties and interest on taxes	1,200	1,200	1,015	(185)
1500 Earnings on investments and deposits	1,200	1,200	1,879	679
1900 Other revenue from local sources				
1950 Refund of prior years' expenditures	-	-	3,395	3,395
4000 Revenue from federal sources				
4100 Grants-in-aid				
4140 Restricted grants-in-aid received directly from federal government	5,500	5,500	5,501	1
4150-4199 Restricted grants-in-aid received from federal government through the state	14,500	14,500	14,485	(15)
Total revenue	<u>389,000</u>	<u>389,000</u>	<u>376,874</u>	<u>(12,126)</u>
<b>Expenditures</b>				
1000 Instruction				
1110 Elementary	19,000	19,000	3,976	15,024
1120 Middle/junior high	2,900	2,900	1,136	1,764
1130 High School	8,300	8,300	2,272	6,028
2500 Support services - business				
2540 Operation and maintenance of plant	211,800	211,800	92,884	118,916
2550 Pupil transportation	47,000	47,000	-	47,000
Total expenditures	<u>289,000</u>	<u>289,000</u>	<u>100,268</u>	<u>188,732</u>
Revenue over expenditures	<u>100,000</u>	<u>100,000</u>	<u>276,606</u>	<u>176,606</u>
Other financing sources (uses)				
8110 Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(70,741)</u>	<u>29,259</u>
Total other financing sources (uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>(70,741)</u>	<u>29,259</u>
Net Change in Fund Balance	-	-	205,865	205,865
Fund Balance - June 30, 2019	<u>759,993</u>	<u>759,993</u>	<u>759,993</u>	-
Fund Balance - June 30, 2020	<u>\$ 759,993</u>	<u>\$ 759,993</u>	<u>\$ 965,858</u>	<u>\$ 205,865</u>

Faith School District No. 46-2  
 Budgetary Comparison Schedule – Special Education  
 Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes				
1100 Ad valorem taxes	\$ 215,200	\$ 215,200	\$ 202,497	\$ (12,703)
1120 Prior years' ad valorem taxes	650	650	393	(257)
1190 Penalties and interest on taxes	550	550	593	43
1500 Earnings on investments and deposits	100	100	227	127
Total revenue	<u>216,500</u>	<u>216,500</u>	<u>203,710</u>	<u>(12,790)</u>
<b>Expenditures</b>				
1200 Special program				
1220 Programs for special education	131,090	131,090	123,648	7,442
2000 Support services				
2100 Pupils				
2140 Psychological	2,500	2,500	-	2,500
2150 Speech pathology	12,500	12,500	3,591	8,909
2160 Audiology services	2,000	2,000	915	1,085
2170 Student therapy services	34,500	34,500	18,582	15,918
2700 Support Services				
2710 Administrative costs	37,215	37,215	37,202	13
Total expenditures	<u>219,805</u>	<u>219,805</u>	<u>183,938</u>	<u>35,867</u>
Revenue over (under) expenditures	<u>(3,305)</u>	<u>(3,305)</u>	<u>19,772</u>	<u>23,077</u>
<b>Other financing sources (uses)</b>				
5110 Transfers in	3,405	3,405	-	(3,405)
8110 Transfers out	(100)	(100)	(227)	(127)
Total other financing sources (uses)	<u>3,305</u>	<u>3,305</u>	<u>(227)</u>	<u>(3,532)</u>
Net Change in Fund Balance	-	-	19,545	19,545
Fund Balance - June 30, 2019	<u>88,093</u>	<u>88,093</u>	<u>88,093</u>	<u>-</u>
Fund Balance - June 30, 2020	<u>\$ 88,093</u>	<u>\$ 88,093</u>	<u>\$ 107,638</u>	<u>\$ 19,545</u>

**Note 1 - Basis of Presentation**

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

**Note 2 - Budgetary Legal Requirements**

South Dakota Codified Law prescribes the budgetary procedures to be followed by the School District as follows:

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

Schedule of Employer's Share of Net Pension Liability (Asset) and Schedule of Employer's Contributions  
June 30, 2020

**Schedule of Employer's Share of Net Pension Liability (Asset)  
Last 10 Fiscal Years\***

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) 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	6/30/2019	0.0458225%	\$ (4,856)	\$ 974,352	-0.50%	100.09%
SDRS	6/30/2018	0.0495173%	\$ (1,155)	\$ 1,029,416	-0.11%	100.02%
SDRS	6/30/2017	0.0490322%	\$ (4,449)	\$ 996,506	-0.45%	100.10%
SDRS	6/30/2016	0.0461941%	\$ 156,039	\$ 879,980	17.73%	96.89%
SDRS	6/30/2015	0.0481345%	\$ (204,153)	\$ 897,683	-22.74%	104.10%
SDRS	6/30/2014	0.0518585%	\$ (373,620)	\$ 900,553	-41.49%	107.30%

\*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 District will present information for those years for which information is available.

**Schedule of Employer's Contributions  
Last 10 Fiscal Years\***

Pension Plan	Fiscal Year Ending	Statutorily Required Contributions (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	6/30/2020	\$ 59,195	\$ 59,195	\$ -	\$ 987,402	6.00%
SDRS	6/30/2019	\$ 58,461	\$ 58,461	\$ -	\$ 974,352	6.00%
SDRS	6/30/2018	\$ 61,765	\$ 61,765	\$ -	\$ 1,029,416	6.00%
SDRS	6/30/2017	\$ 59,790	\$ 59,790	\$ -	\$ 996,506	6.00%
SDRS	6/30/2016	\$ 52,799	\$ 52,799	\$ -	\$ 879,980	6.00%
SDRS	6/30/2015	\$ 53,861	\$ 53,861	\$ -	\$ 897,683	6.00%

\*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 District will present information for those years for which information is available.

**Changes of Benefit Terms**

No significant changes.

**Changes of Assumptions**

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 existed as of June 30, 2018, and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018, and is 1.88% as of June 30, 2019.

The changes in actuarial assumptions increased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 2.03% COLA, reflecting the current and assumed future restricted maximum COLA of 1.88%.

Actuarial assumptions are reviewed in-depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.



**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***

Members of the School Board  
Faith School District No. 46-2  
Meade County, 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, each major fund, and the aggregate remaining fund information of Faith School District No. 46-2, Meade County, South Dakota (the School District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated February 3, 2021.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying auditor's comments as items 2020-001 and 2020-002 that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

### **Faith School District No. 46-2's Responses to Findings**

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

### **Purpose of this Report**

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



Aberdeen, South Dakota  
February 3, 2021

**2020-001 Segregation of Duties**

**Material Weakness**

*Condition:* The District has a lack of segregation of duties in certain areas due to a limited staff.

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

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

*Effect:* This condition increases the risk that fraud or errors might occur in the financial reporting process and not be detected and corrected on a timely basis by employees in the normal course of performing their assigned function.

*Recommendation:* While it is recognized that the 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.

*Management's Response:* The Faith School District No. 46-2 is a small school district and has limited office staff which does not permit the complete segregation of duties. The School District has in place an internal control procedure to fit our office size. To have proper segregation of duties per audit standards, the School District would need to hire additional office staff. This is not feasible or economically possible for a School District of our size.

**2020-002 Preparation of Financial Statements, Footnotes, and Audit Journal Entries**

**Material Weakness**

*Condition:* The School District requested the external auditors to assist in the preparation of the financial statements and related footnotes for the year ended June 30, 2020. As part of the financial statement preparation process, at times, the external auditors proposed material audit adjustments that were not identified as a result of the School District's existing internal controls and, therefore, could result in a misstatement of the School District's financial statements.

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

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

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

*Recommendation:* This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, management and those charged with governance should continually be aware of the financial reporting of the School District and change in reporting requirements.

*Management's Response:* The Faith School District No. 46-2 requested the auditor's assistance in preparation of the financial statements and the related footnotes due to cost/benefit and other considerations. At times, we acknowledge the auditors identify material audit adjustments and accept the risk associated with these conditions.

**Status of Prior Audit Recommendations**

**2019-001 Segregation of Duties – Material Weakness**

*Initial Fiscal Year Finding Occurred: 2008*

*Finding Summary:* The School District has a lack of segregation of duties in certain areas due to a limited staff.

*Status:* This is a repeat finding listed as 2020-001.

**2019-002 Recording of Transactions – Material Weakness**

*Initial Fiscal Year Finding Occurred: 2008*

*Finding Summary:* We identified misstatements in the School District's financial statements causing us to propose significant audit adjustments.

*Status:* This is a repeat finding listed as part of 2020-002.

**2019-003 Preparation of Financial Statements – Material Weakness**

*Initial Fiscal Year Finding Occurred: 2008*

*Finding Summary:* The School District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

*Status:* This is a repeat finding listed as part of 2020-002.