



Financial Statements
June 30, 2021

Frederick Area School District No. 6-2

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Independent Auditor's Report

The School Board
Frederick Area School District No. 6-2
Frederick, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Frederick Area School District No. 6-2 (the School District) as of and for the year ended June 30, 2021, 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 of these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of employer's share of net pension liability (asset), schedule of employer's contributions, and budgetary comparison information on pages 36 through 43 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2022, 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
April 21, 2022

Frederick Area School District No. 6-2

Statement of Net Position

June 30, 2021

| | Primary Government | | |
|--|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 4,785,853 | \$ 9,665 | \$ 4,795,518 |
| Taxes receivable | 753,709 | - | 753,709 |
| Other receivables | 75,103 | - | 75,103 |
| Inventories | - | 4,849 | 4,849 |
| Net pension asset | 2,474 | 76 | 2,550 |
| Capital assets not being depreciated: | | | |
| Land | 2,000 | - | 2,000 |
| Capital assets, net of accumulated depreciation: | | | |
| Improvements other than buildings | 17,321 | - | 17,321 |
| Buildings | 1,493,450 | - | 1,493,450 |
| Machinery and equipment | 520,322 | 20,332 | 540,654 |
| Total assets | <u>7,650,232</u> | <u>34,922</u> | <u>7,685,154</u> |
| Deferred Outflows of Resources | | | |
| Pension related deferred outflows | 398,752 | 12,120 | 410,872 |
| Total assets and deferred outflows | <u>\$ 8,048,984</u> | <u>\$ 47,042</u> | <u>\$ 8,096,026</u> |
| Liabilities, Deferred Inflows of Resources and Net Position | | | |
| Liabilities | | | |
| Accounts payable | \$ 18,071 | \$ 185 | \$ 18,256 |
| Other current liabilities | 169,080 | 49 | 169,129 |
| Unearned revenue | - | 3,406 | 3,406 |
| Total liabilities | <u>187,151</u> | <u>3,640</u> | <u>190,791</u> |
| Deferred Inflows of Resources | | | |
| Pension related deferred inflows | 325,129 | 9,883 | 335,012 |
| Taxes levied for future period | 818,778 | - | 818,778 |
| Total deferred inflows of resources | <u>1,143,907</u> | <u>9,883</u> | <u>1,153,790</u> |
| Net Position | | | |
| Net investment in capital assets | 2,033,093 | 20,332 | 2,053,425 |
| Restricted for: | | | |
| Capital Outlay | 2,113,485 | - | 2,113,485 |
| Special Education | 1,611,954 | - | 1,611,954 |
| SDRS Benefits | 76,097 | 2,313 | 78,410 |
| Unrestricted | 883,297 | 10,874 | 894,171 |
| Total net position | <u>6,717,926</u> | <u>33,519</u> | <u>6,751,445</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 8,048,984</u> | <u>\$ 47,042</u> | <u>\$ 8,096,026</u> |

Frederick Area School District No. 6-2
Statement of Activities
Year Ended June 30, 2021

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | | |
|--------------------------------------|---------------------|----------------------|------------------------------------|---|--------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Primary Government | | |
| | | | | Governmental Activities | Business-Type Activities | Total |
| Primary Government | | | | | | |
| Governmental activities: | | | | | | |
| Instruction | \$ 1,265,383 | \$ 4,269 | \$ 195,784 | \$ (1,065,330) | \$ - | \$ (1,065,330) |
| Support services | 1,073,343 | 4,157 | 618 | (1,068,568) | - | (1,068,568) |
| Co-curricular activities | 188,304 | 28,717 | - | (159,587) | - | (159,587) |
| Total governmental activities | <u>2,527,030</u> | <u>37,143</u> | <u>196,402</u> | <u>(2,293,485)</u> | <u>-</u> | <u>(2,293,485)</u> |
| Business-type activities: | | | | | | |
| Other | 4,507 | 1,650 | - | - | (2,857) | (2,857) |
| Food service | 97,483 | 43,166 | 31,809 | - | (22,508) | (22,508) |
| Total business-type activities | <u>101,990</u> | <u>44,816</u> | <u>31,809</u> | <u>-</u> | <u>(25,365)</u> | <u>(25,365)</u> |
| Total primary government | <u>\$ 2,629,020</u> | <u>\$ 81,959</u> | <u>\$ 228,211</u> | <u>(2,293,485)</u> | <u>(25,365)</u> | <u>(2,318,850)</u> |
| General Revenues | | | | | | |
| Property taxes | | | | 1,852,902 | - | 1,852,902 |
| Gross receipts taxes | | | | 62,907 | - | 62,907 |
| Revenue from state sources: | | | | | | |
| State aid | | | | 492,639 | - | 492,639 |
| Revenue from federal sources | | | | 355 | - | 355 |
| Unrestricted investment earnings | | | | 11,062 | - | 11,062 |
| Gain on disposal of assets | | | | (2,974) | - | (2,974) |
| Other general revenues | | | | 25,753 | - | 25,753 |
| Transfer for capital contribution | | | | - | 3,416 | 3,416 |
| Transfers | | | | (21,745) | 21,745 | - |
| Total general revenues and transfers | | | | <u>2,420,899</u> | <u>25,161</u> | <u>2,446,060</u> |
| Change in Net Position | | | | 127,414 | (204) | 127,210 |
| Net Position - Beginning | | | | 6,590,512 | 33,723 | 6,624,235 |
| Net Position - Ending | | | | <u>\$ 6,717,926</u> | <u>\$ 33,519</u> | <u>\$ 6,751,445</u> |

Frederick Area School District No. 6-2

Balance Sheets – Governmental Funds

June 30, 2021

| | General Fund | Capital Outlay Fund | Special Education Fund | Total Governmental Funds |
|---|---------------------|------------------------|------------------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 1,005,246 | \$ 2,136,182 | \$ 1,644,425 | \$ 4,785,853 |
| Taxes receivable - current | 384,197 | 245,018 | 113,586 | 742,801 |
| Taxes receivable - delinquent | 5,376 | 3,660 | 1,872 | 10,908 |
| Accounts receivable | 20 | - | - | 20 |
| Due from other governments | 75,083 | - | - | 75,083 |
| Total assets | \$ 1,469,922 | \$ 2,384,860 | \$ 1,759,883 | \$ 5,614,665 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 17,315 | \$ 426 | \$ 330 | \$ 18,071 |
| Contracts payable | 117,868 | - | 18,086 | 135,954 |
| Payroll deductions and withholdings and employer matching payable | 29,220 | - | 3,906 | 33,126 |
| Total liabilities | 164,403 | 426 | 22,322 | 187,151 |
| Deferred Inflows of Resources | | | | |
| Taxes levied for future period | 422,222 | 270,949 | 125,607 | 818,778 |
| Unavailable revenue - delinquent property taxes | 5,376 | 3,660 | 1,872 | 10,908 |
| Total deferred inflows of resources | 427,598 | 274,609 | 127,479 | 829,686 |
| Fund Balances | | | | |
| Restricted | | | | |
| Capital Outlay | - | 2,109,825 | - | 2,109,825 |
| Special Education | - | - | 1,610,082 | 1,610,082 |
| Unassigned | 877,921 | - | - | 877,921 |
| Total fund balances | 877,921 | 2,109,825 | 1,610,082 | 4,597,828 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 1,469,922 | \$ 2,384,860 | \$ 1,759,883 | \$ 5,614,665 |

Frederick Area School District No. 6-2
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
Year Ended June 30, 2021

| | |
|--|----------------------------|
| Total Fund Balances - Governmental Funds | \$ 4,597,828 |
| Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because: | |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. | 2,033,093 |
| Property taxes become due and payable on January 1 each year, but are not collected/available soon enough to pay current period expenditures; therefore, they are reported as deferred revenue in the fund financial statements. However, because the delinquent taxes are payable by the taxpayer at June 30, the delinquent taxes are reported as revenue on the government-wide financial statements. | 10,908 |
| Net pension liability (asset), pension related deferred inflows of resources, and pension related deferred outflows of resources do not represent available financial resources and, therefore, are not available financial resources and, therefore, are not reported in the funds. | <u>76,097</u> |
| Net Position - Governmental Funds | <u><u>\$ 6,717,926</u></u> |

Frederick Area School District No. 6-2
 Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
 Year Ended June 30, 2021

| | General Fund | Capital Outlay Fund | Special Education Fund | Total Governmental Funds |
|---|------------------|---------------------------|------------------------------|--------------------------------|
| Revenues | | | | |
| Revenue from local sources | | | | |
| Taxes: | | | | |
| Ad valorem taxes | \$ 846,011 | \$ 672,003 | \$ 317,802 | \$ 1,835,816 |
| Prior year's ad valorem taxes | 2,012 | 1,331 | 705 | 4,048 |
| Gross receipts taxes | 62,907 | - | - | 62,907 |
| Penalties and interest on taxes | 2,483 | 2,508 | 1,211 | 6,202 |
| Earnings on investments and deposits | 11,062 | - | - | 11,062 |
| Co-curricular activities: | | | | |
| Admissions | 6,909 | - | - | 6,909 |
| Rentals | 180 | - | - | 180 |
| Other pupil activity income | 21,808 | - | - | 21,808 |
| Other revenue from local sources: | | | | |
| Contributions and donations | 568 | 50 | - | 618 |
| Services provided other school districts | 4,157 | - | - | 4,157 |
| Refund of prior years' expenditures | 231 | - | - | 231 |
| Judgments | 63 | - | - | 63 |
| Charges for services | 2,962 | - | 1,307 | 4,269 |
| Other | 7,407 | 11,109 | - | 18,516 |
| Revenue from intermediate sources | | | | |
| County sources: | | | | |
| County apportionment | 6,763 | - | - | 6,763 |
| Revenue from state sources | | | | |
| Grants-in-aid: | | | | |
| Unrestricted grants-in-aid | 492,639 | - | - | 492,639 |
| Revenue from federal sources | | | | |
| Grants-in-aid: | | | | |
| Unrestricted grants-in-aid received from federal government through the state | 81,000 | - | - | 81,000 |
| Restricted grants-in-aid Received from federal government through the state | 86,609 | 17,637 | - | 104,246 |
| Restricted grants-in-aid Received directly from federal government | 10,538 | - | - | 10,538 |
| Other federal revenue | 355 | - | - | 355 |
| Total revenues | 1,646,664 | 704,638 | 321,025 | 2,672,327 |

Frederick Area School District No. 6-2
 Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
 Year Ended June 30, 2021

| | General Fund | Capital Outlay Fund | Special Education Fund | Total Governmental Funds |
|---|------------------|---------------------------|------------------------------|--------------------------------|
| Expenditures | | | | |
| Instruction | | | | |
| Regular programs: | | | | |
| Elementary | 497,125 | 4,507 | - | 501,632 |
| Middle/junior high | 118,195 | 4,083 | - | 122,278 |
| High school | 257,371 | 4,164 | - | 261,535 |
| Special programs: | | | | |
| Programs for special education | - | - | 196,649 | 196,649 |
| Educationally deprived | 53,083 | - | - | 53,083 |
| Support services | | | | |
| Students: | | | | |
| Guidance | 59,194 | 111 | - | 59,305 |
| Psychological | - | - | 3,813 | 3,813 |
| Speech pathology | - | - | 9,707 | 9,707 |
| Student therapy services | - | - | 20,584 | 20,584 |
| Support services - instructional staff: | | | | |
| Improvement of instruction | 2,254 | - | - | 2,254 |
| Educational media | 69,236 | 5,246 | - | 74,482 |
| Support services - general administration: | | | | |
| Board of Education | 118,296 | - | - | 118,296 |
| Executive administration | 91,938 | 300 | - | 92,238 |
| Support services - school administration: | | | | |
| Office of the Principal | 136,818 | 1,639 | - | 138,457 |
| Other school administration | 219 | - | - | 219 |
| Support services - business: | | | | |
| Fiscal services | 92,465 | 182 | - | 92,647 |
| Facilities acquisition and construction | - | 3,227 | - | 3,227 |
| Operation and maintenance of plant | 222,184 | 12,259 | - | 234,443 |
| Pupil transportation | 127,451 | 15 | - | 127,466 |
| Other | 16,457 | 8,254 | - | 24,711 |
| Support services - special education: | | | | |
| Administration costs | - | - | 4,716 | 4,716 |
| Transportation costs | - | - | 468 | 468 |
| Co-curricular activities | | | | |
| Male activities | 25,954 | 912 | - | 26,866 |
| Female activities | 19,494 | 1,936 | - | 21,430 |
| Transportation | 11,319 | - | - | 11,319 |
| Combined activities | 58,594 | - | - | 58,594 |
| Capital outlay | 12,037 | 235,761 | - | 247,798 |
| Total expenditures | <u>1,989,684</u> | <u>282,596</u> | <u>235,937</u> | <u>2,508,217</u> |
| Excess of Revenue over (under) Expenditures | <u>(343,020)</u> | <u>422,042</u> | <u>85,088</u> | <u>164,110</u> |

Frederick Area School District No. 6-2
 Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
 Year Ended June 30, 2021

| | General Fund | Capital Outlay Fund | Special Education Fund | Total Governmental Funds |
|--------------------------------------|-----------------|---------------------------|------------------------------|--------------------------------|
| Other Financing Sources (Uses) | | | | |
| Transfers in | 366,125 | - | - | 366,125 |
| Transfers out | (21,745) | (366,125) | - | (387,870) |
| Sale of surplus property | - | 200 | - | 200 |
| | | | | |
| Total other financing sources (uses) | 344,380 | (365,925) | - | (21,545) |
| | | | | |
| Net Change in Fund Balance | 1,360 | 56,117 | 85,088 | 142,565 |
| | | | | |
| Fund Balance - Beginning | 876,561 | 2,053,708 | 1,524,994 | 4,455,263 |
| | | | | |
| Fund Balance - Ending | \$ 877,921 | \$ 2,109,825 | \$ 1,610,082 | \$ 4,597,828 |

Frederick Area School District No. 6-2
 Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balances to the
 Government-Wide Statement of Activities
 Year Ended June 30, 2021

| | | |
|---|----------------|--------------------------|
| Net Change in Fund Balances - Total Governmental Funds | | \$ 142,565 |
| Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because: | | |
| <p>Governmental funds report capital outlays as expenditures; however, in the statements of activities the cost of those assets is allocated over their estimated useful lives and reported as as depreciation expense.</p> | | |
| Capital outlays | 247,798 | |
| Depreciation expense | (153,669) | |
| Loss on disposal | <u>(3,174)</u> | |
| | | 90,955 |
| <p>The fund financial statement governmental fund property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available."</p> | | |
| | | 6,836 |
| <p>Expenses or reductions of expenses related to pensions reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the funds.</p> | | |
| | | <u>(112,942)</u> |
| Change in Net Position of Governmental Activities | | <u><u>\$ 127,414</u></u> |

Frederick Area School District No. 6-2
 Statements of Net Position – Proprietary Funds
 June 30, 2021

| | Enterprise | | |
|---|----------------------|-------------------|------------------|
| | Food Service Fund | Driver Ed Fund | Total |
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 8,538 | \$ 1,127 | \$ 9,665 |
| Inventory of supplies | 2,034 | - | 2,034 |
| Inventory of stores purchased for resale | 2,355 | - | 2,355 |
| Inventory of donated food | 460 | - | 460 |
| Total current assets | <u>13,387</u> | <u>1,127</u> | <u>14,514</u> |
| Noncurrent Assets | | | |
| Net pension asset | 69 | 7 | 76 |
| Capital assets: | | | |
| Machinery and equipment - local funds | 57,275 | - | 57,275 |
| Machinery and equipment - federal assistance | 5,782 | - | 5,782 |
| Less accumulated depreciation | (42,725) | - | (42,725) |
| Total noncurrent assets | <u>20,401</u> | <u>7</u> | <u>20,408</u> |
| Total assets | <u>33,788</u> | <u>1,134</u> | <u>34,922</u> |
| Deferred Outflows of Resources | | | |
| Pension related deferred outflows | 11,052 | 1,068 | 12,120 |
| Total assets and deferred outflows | <u>\$ 44,840</u> | <u>\$ 2,202</u> | <u>\$ 47,042</u> |
| Liabilities, Deferred Inflows, and Net Position | | | |
| Current Liabilities | | | |
| Accounts payable | \$ - | \$ 185 | \$ 185 |
| Payroll deductions and withholdings and employer matching payable | 49 | - | 49 |
| Unearned revenue | 3,406 | - | 3,406 |
| Total current liabilities | <u>3,455</u> | <u>185</u> | <u>3,640</u> |
| Deferred inflows of resources | | | |
| Pension related deferred inflows | 9,012 | 871 | 9,883 |
| Net Position | | | |
| Net investment in capital assets | 20,332 | - | 20,332 |
| Restricted net position, restricted for: | | | |
| SDRS pension purposes | 2,109 | 204 | 2,313 |
| Unrestricted net position | 9,932 | 942 | 10,874 |
| Total net position | <u>32,373</u> | <u>1,146</u> | <u>33,519</u> |
| Total liabilities, deferred inflows, and net position | <u>\$ 44,840</u> | <u>\$ 2,202</u> | <u>\$ 47,042</u> |

Frederick Area School District No. 6-2
 Statements of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
 Year Ended June 30, 2021

| | Enterprise | | |
|---|----------------------|-------------------|------------------|
| | Food Service Fund | Driver Ed Fund | Total |
| Operating Revenue | | | |
| Sales | | | |
| To pupils | \$ 37,440 | \$ - | \$ 37,440 |
| To adults | 5,726 | - | 5,726 |
| Fees | - | 1,650 | 1,650 |
| Total operating revenue | <u>43,166</u> | <u>1,650</u> | <u>44,816</u> |
| Operating Expenses | | | |
| Salaries | 36,743 | 3,320 | 40,063 |
| Employee benefits | 14,060 | 809 | 14,869 |
| Purchased services | 189 | | 189 |
| Supplies | 2,914 | 213 | 3,127 |
| Cost of sales - purchased | 33,243 | - | 33,243 |
| Cost of sales - donated | 7,456 | - | 7,456 |
| Other | 95 | - | 95 |
| Repairs and maintenance | - | 165 | 165 |
| Depreciation | 2,783 | - | 2,783 |
| Total operating expenses | <u>97,483</u> | <u>4,507</u> | <u>101,990</u> |
| Operating Loss | <u>(54,317)</u> | <u>(2,857)</u> | <u>(57,174)</u> |
| Nonoperating Revenue | | | |
| State sources: | | | |
| Cash reimbursements | 269 | - | 269 |
| Federal sources: | | | |
| Grants | 956 | - | 956 |
| Cash reimbursements | 24,650 | - | 24,650 |
| Donated food | 5,934 | - | 5,934 |
| Total nonoperating revenue | <u>31,809</u> | <u>-</u> | <u>31,809</u> |
| Loss Before Contributions and Transfers | <u>(22,508)</u> | <u>(2,857)</u> | <u>(25,365)</u> |
| Capital contributions | 3,416 | - | 3,416 |
| Transfers in | 19,215 | 2,530 | 21,745 |
| Total contributions and transfers in | <u>22,631</u> | <u>2,530</u> | <u>25,161</u> |
| Change in Net Position | 123 | (327) | (204) |
| Net Position - Beginning | <u>32,250</u> | <u>1,473</u> | <u>33,723</u> |
| Net Position - Ending | <u>\$ 32,373</u> | <u>\$ 1,146</u> | <u>\$ 33,519</u> |

Frederick Area School District No. 6-2
Statements of Cash Flows – Proprietary Funds
Year Ended June 30, 2021

| | Enterprise | | |
|---|----------------------|-------------------|-------------|
| | Food Service Fund | Driver Ed Fund | Total |
| Cash Flows from (used for) Operating Activities | | | |
| Cash receipts from customers | \$ 40,531 | \$ 1,650 | \$ 42,181 |
| Cash payments to employees for services | (49,515) | (3,792) | (53,307) |
| Cash payments to suppliers for goods or services | (35,765) | (193) | (35,958) |
| Net Cash used for Operating Activities | (44,749) | (2,335) | (47,084) |
| Cash Flows from Noncapital Financing Activities | | | |
| Transfers from General Fund | 19,215 | 2,530 | 21,745 |
| Cash reimbursements - state sources | 269 | - | 269 |
| Cash reimbursements - federal sources | 25,606 | - | 25,606 |
| Net Cash from Noncapital Financing Activities | 45,090 | 2,530 | 47,620 |
| Net Change in Cash and Cash Equivalents | 341 | 195 | 536 |
| Cash and Cash Equivalents, Beginning of Year | 8,197 | 932 | 9,129 |
| Cash and Cash Equivalents, End of Year | \$ 8,538 | \$ 1,127 | \$ 9,665 |
| Reconciliation of Operating Loss to Net Cash used for Operating Activities: | | | |
| Operating loss | \$ (54,317) | \$ (2,857) | \$ (57,174) |
| Adjustments to reconcile operating loss to net cash used for operating activities: | | | |
| Value of donated commodities used | 7,456 | - | 7,456 |
| Depreciation | 2,783 | - | 2,783 |
| Change in assets and liabilities: | | | |
| Pension asset and deferred outflows | (5,379) | (161) | (5,540) |
| Pension liability and deferred inflows | 6,667 | 498 | 7,165 |
| Inventories | 710 | - | 710 |
| Contracts payable | - | - | - |
| Accounts and other payables | (34) | 185 | 151 |
| Unearned revenue | (2,635) | - | (2,635) |
| Net Cash used for Operating Activities | \$ (44,749) | \$ (2,335) | \$ (47,084) |
| Noncash Investing, Capital and Financing Activities | | | |
| Value of commodities received | \$ 5,934 | \$ - | \$ 5,934 |
| Equipment purchased by the Capital Outlay fund | 3,416 | - | 3,416 |

Frederick Area School District No. 6-2
 Statements of Fiduciary Net Position
 June 30, 2021

| | Private Purpose Trust Funds | Custodial Funds |
|------------------------------------|--------------------------------|--------------------|
| Assets | | |
| Cash and cash equivalents | \$ 27,401 | \$ 2,050 |
| Total assets | \$ 27,401 | \$ 2,050 |
| Liabilities and Net Position | | |
| Net Position | | |
| Held for others | | |
| Held in trust for scholarships | \$ 27,401 | \$ 2,050 |
| Total net position | 27,401 | 2,050 |
| Total liabilities and net position | \$ 27,401 | \$ 2,050 |

Frederick Area School District No. 6-2
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2021

| | Private- Purpose Trust Funds | Custodial Funds |
|--------------------------|------------------------------------|--------------------|
| Investment Earnings | | |
| Interest | \$ 102 | \$ - |
| Donations | - | 2,500 |
| Activity receipts | - | 6,554 |
| Deductions | | |
| Activity expenses | - | (4,504) |
| Scholarship expense | - | (2,500) |
| | 102 | 2,050 |
| Change in Net Position | | |
| Net Position - Beginning | 27,299 | - |
| Net Position - Ending | \$ 27,401 | \$ 2,050 |

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Frederick Area School District No. 6-2 (the School District) conform to generally accepted accounting principles applicable to government entities in the United States of America.

Financial Reporting Entity

The reporting entity of the Frederick Area School District No. 6-2 consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the School District); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the School District's financial statements to be misleading or incomplete.

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

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

Basis of Presentation

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

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

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

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

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

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

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

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

Governmental Funds

General Fund – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the School District, excluding Capital Outlay Fund and Special Education Fund expenditures. The General Fund is always a major fund.

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

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

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

Proprietary Funds

Enterprise Funds – Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs of providing goods and services be financed or recovered primarily through user charges. The Food Service Fund and Driver Education Fund are the enterprise funds of the School District.

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

Driver Education Fund – A fund used to record financial transactions related to the driver education program. This fund is financed by user charges. This is a major fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

Private Purpose Trust Fund – One trust fund of the School District was created to hold funds in trust for the benefit of giving scholarships to School District graduates to help cover the costs of higher education. All accumulated earnings on these invested resources may be used to support the disbursement of scholarships to graduates of the School District.

Custodial Fund – The School District maintains custodial funds to hold assets as an agent for the Lake Region Conference and scholarship payments that are not held in trust.

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 statements of activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

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

Basis of Accounting

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

Fund Financial Statements – All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues 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, 2021, are due from the federal, state and local governments.

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

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

Interfund Eliminations and Reclassifications**Government-Wide Financial Statements**

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

Fund Financial Statements

Noncurrent portions of long-term interfund receivables are reported as nonspendable fund balance to the extent that the proceeds from the collection of those receivables are not restricted, committed, or assigned. Current portions of interfund receivables are considered “available spendable resources” and are reported in the appropriate fund balance category.

Inventory

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first out (FIFO). Donated commodities are valued at estimated market value based on the USDA price list at date of receipt. In the government-wide financial statements and the proprietary funds in the fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed. In the fund financial statements, inventories in the General Fund and special revenue funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are considered nonspendable fund balances as they do not constitute “available spendable resources.” The School District did not have any material amounts of inventory in the General Fund or special revenue funds.

Capital Assets

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

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

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

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

The June 30, 2021, balance of capital assets for governmental activities includes approximately 11% for which the costs were determined by estimates of the original costs. These estimated original costs were established by deflating the current replacement cost. The total June 30, 2021, balance of capital assets for business-type activities are all valued at original cost.

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

| | Capitalization Threshold | Depreciation Method | Estimated Useful Life |
|----------------------------|-----------------------------|------------------------|--------------------------|
| Land* | \$ 1,000 | N/A | N/A |
| Food service equipment | 1,000 | Straight-Line | 12 years |
| Buildings and improvements | 5,000 | Straight-Line | 33-50 years |
| Machinery and equipment | 5,000 | Straight-Line | 5-20 years |

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

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

Noncurrent Liabilities

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

All noncurrent liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The School District does not have any noncurrent liabilities.

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

Deferred Outflows and Inflows of Resources

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

Program Revenues

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

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

Property Taxes

Property taxes are levied on or before each October 1, attach as an enforceable lien on property 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 they are used to finance each year's appropriations. Revenue related to current-year property taxes receivable that is not intended to be used to finance the current year's appropriations and is 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 an amount not collected during the fiscal period or within the "availability period."

Proprietary Funds Revenue and Expense Classifications

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

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

Cash and Cash Equivalents

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

Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Equity Classifications

Government-Wide Statements - Equity is classified as net position and is displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable), 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 assets 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 assets that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements

Governmental fund equity is classified as fund balance and is distinguished between nonspendable, restricted, committed, assigned, or unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity is reported as net position held in trust for other purposes.

Application of Net Position

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

Fund Balance Classification Policies and Procedures

The School District classifies governmental fund balance as follows:

- **Nonspendable** – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.
- **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 nor committed. Fund balance may be assigned by the School Board or Business Manager.
- **Unassigned** – Includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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

The 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 | Grants and property taxes |
| Special Education Fund | Grants and property taxes |

Pensions

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

Rounding

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

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

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

Deposits

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

Deposits are recorded at cost plus interest if the account is of 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 interest income from deposits and investments to each fund holding the deposits or investments in a proportional manner.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a bank failure, the School District’s deposits may not be returned. The School District’s deposit policy requires deposits in excess of the depository insurance maximums to be 100% collateralized as required by South Dakota Codified Law. The financial institutions where the collateral is held must be a member of the FDIC. As of June 30, 2021, the financial institution that holds the School District’s deposits was properly collateralized.

The actual bank balances at June 30, 2021, were as follows:

| | |
|--|----------------------------|
| Insured (FDIC/NCUA) | \$ 500,000 |
| Uninsured, collateral jointly held by state's/School District's agent in the name of the state and the pledging state and the pledging financial institution | <u>3,548,590</u> |
| Total deposits | <u><u>\$ 4,048,590</u></u> |

The School District’s carrying amount of deposits at June 30, 2021, was \$4,045,799. Reconciliation of deposits to government-wide statement of net position:

| | |
|---|----------------------------|
| Cash and cash equivalents | \$ 4,795,518 |
| Add: Fiduciary funds cash (not included in government-wide statement of net position) | 29,451 |
| Less: SDFIT GCR included in cash and cash equivalents | <u>(779,170)</u> |
| Total reconciled deposits | <u><u>\$ 4,045,799</u></u> |

Investments

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

The South Dakota Public Fund Investment Trust (SDFIT) Government Cash Reserve Fund (GCR) is an unrated, external investment pool created for South Dakota local government investing purposes. It is regulated by a nine-member board with representation from municipalities, school districts, and counties. At June 30, 2021, the School District held \$779,170 in the SDFIT GCR.

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

Measured at NAV:

| | <u>Amortized Cost</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|-----------|-----------------------|-----------------------------|-----------------------------|---------------------------------|
| SDFIT GCR | \$ 779,170 | - | 1 day | 1 day |

The objective of the GCR 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. GCR is authorized by investment policy and statute to invest public funds in obligations of the U.S. government, its agencies and instrumentalities, and repurchase agreements, provided that the underlying collateral consists of obligations of the U.S. government, its agencies and instrumentalities, and that GCR’s custodian takes delivery of the collateral either directly or through an authorized custodian.

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

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

Credit Risk – State law limits eligible investments for School Districts, as discussed above. The School District has no investment policy that would further limit its investment choices. As of June 30, 2021, the School District's investment in the SD FIT GCR was unrated.

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

Note 3 - Receivables and Payables

Receivables and payables are aggregated in the government-wide financial statements. However, the fund financial statements present the receivable and payable information in a non-aggregated format. The amount recorded as due from other governments consists of \$12,176 from federal sources for grant reimbursements, and \$26,113 from state sources and \$36,794 from county sources for utility tax revenues. The School District expects all receivables to be collected within one year. Based on the nature of the receivables, no allowances for estimates uncollectible have been established.

Note 4 - Changes in Capital Assets

A summary of changes in capital assets for the year ended June 30, 2021, is as follows:

| <u>Business-Type Activities</u> | <u>Balance 7/01/20</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance 06/30/21</u> |
|--|----------------------------|------------------|------------------|-----------------------------|
| Capital assets being depreciated: | | | | |
| Machinery and equipment | \$ 59,641 | \$ 3,416 | \$ - | \$ 63,057 |
| Total capital assets being depreciated | <u>59,641</u> | <u>3,416</u> | <u>-</u> | <u>63,057</u> |
| Less accumulated depreciation for: | | | | |
| Machinery and equipment | 39,942 | 2,783 | - | 42,725 |
| Total accumulated depreciation | <u>39,942</u> | <u>2,783</u> | <u>-</u> | <u>42,725</u> |
| Total capital assets being depreciated, net | <u>19,699</u> | <u>633</u> | <u>-</u> | <u>20,332</u> |
| Business-type activities capital assets, net | <u>\$ 19,699</u> | <u>\$ 633</u> | <u>\$ -</u> | <u>\$ 20,332</u> |

Depreciation expense was charged to functions as follows:

| | | | |
|---|--|--|-----------------|
| Business-type activities: | | | |
| Food services | | | \$ 2,783 |
| Total depreciation expense - business-type activities | | | <u>\$ 2,783</u> |

| <u>Primary Government Governmental Activities</u> | <u>Balance 7/01/20</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance 06/30/21</u> |
|---|----------------------------|------------------|------------------|-----------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,000 | \$ - | \$ - | \$ 2,000 |
| Total capital assets not being depreciated | <u>2,000</u> | <u>-</u> | <u>-</u> | <u>2,000</u> |
| Capital assets being depreciated: | | | | |
| Improvements other than buildings | 83,152 | - | - | 83,152 |
| Buildings | 2,744,186 | 15,730 | - | 2,759,916 |
| Machinery and equipment | 829,123 | 232,068 | 29,935 | 1,031,256 |
| Total capital assets being depreciated | <u>3,656,461</u> | <u>247,798</u> | <u>29,935</u> | <u>3,874,324</u> |
| Less accumulated depreciation for: | | | | |
| Improvements other than buildings | 62,088 | 3,743 | - | 65,831 |
| Buildings | 1,199,935 | 66,531 | - | 1,266,466 |
| Machinery and equipment | 454,300 | 83,395 | 26,761 | 510,934 |
| Total accumulated depreciation | <u>1,716,323</u> | <u>153,669</u> | <u>26,761</u> | <u>1,843,231</u> |
| Total capital assets being depreciated, net | <u>1,940,138</u> | <u>94,129</u> | <u>3,174</u> | <u>2,031,093</u> |
| Governmental activity capital assets, net | <u>\$ 1,942,138</u> | <u>\$ 94,129</u> | <u>\$ 3,174</u> | <u>\$ 2,033,093</u> |

Depreciation expense was charged to functions as follows:

| | | | |
|--|--|--|-------------------|
| Governmental activities | | | |
| Instruction | | | \$ 57,121 |
| Support services | | | 31,513 |
| Co-curricular | | | 65,035 |
| Total depreciation expense - governmental activities | | | <u>\$ 153,669</u> |

Note 5 - Early Retirement Plan

The School District has adopted a policy whereby teachers between the ages of 55 and 64 that have been employed with the School District for a minimum of 15 years are eligible for early retirement. The one-time benefit is \$25,000. Payment is made in one lump sum to SDRS on behalf of the retiree. During the year ended June 30, 2021, no early retirement payments were made.

Note 6 - Restricted Net Position

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

| <u>Purpose</u> | <u>Restricted By</u> | <u>Amount</u> |
|-------------------------------|----------------------|----------------------------|
| Capital Outlay | Law | \$ 2,113,485 |
| Special Education | Law | 1,611,954 |
| SDRS Benefits | Law | <u>78,410</u> |
| Total restricted net position | | <u><u>\$ 3,803,849</u></u> |

Note 7 - Joint Ventures

The School District participates in the following joint venture:

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

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

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

The School District retains no equity interest in the net position of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above. At June 30, 2021, the North Central Special Education Cooperative had fund equity of \$376,162 and no long-term debt. Financial statements are available by contacting the North Central Special Education Cooperative.

Note 8 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2021, the School District managed its risks as follows:

Liability Insurance

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

Employee Health Insurance

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

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

Workers' Compensation Insurance

The School District participates, with several other educational units and related organizations in South Dakota, in the Association of School Boards Workers' Compensation Fund Pool, which provided workers' compensation insurance coverage for participating members of the pool. The School District is responsible for payment of a premium to the insurance pool along with other pool participants. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool-retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. For the year ended June 30, 2021, the pool's retained risk was \$500,000 per occurrence with additional insurance purchased from a private insurance company for an additional \$500,000 for total coverage of \$1,000,000 per occurrence. There was no additional assessment charged to the pool members for the year ended June 30, 2021.

Unemployment Benefits

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

During the year ended June 30, 2021, no claims for unemployment benefits were paid. At June 30, 2021, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Note 9 - Interfund Transfers

Interfund transfers for the year ended June 30, 2021, were as follows:

| Transfers From | Transfers To | |
|---------------------|--------------|-------------------|
| | General Fund | Food Service Fund |
| Major Funds: | | |
| General Fund | \$ - | \$ 21,745 |
| Capital Outlay Fund | 366,125 | - |

The School District transferred money from the General Fund to the Food Service Fund to supplement the funds. The School District also transferred money from the Capital Outlay Fund to the General Fund to supplement the fund. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

Note 10 - Pension Plan

Plan Information

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

Benefits Provided

SDRS has three different classes of employees: Class A 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 retirement benefits 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 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd 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 ending June 30, 2021, 2020, and 2019, were \$80,100, \$77,360 and \$75,045, respectively, equal to the required contributions each year.

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

At June 30, 2020, SDRS is 100.04% 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, 2020, and reported by the School District as of June 30, 2021, are as follows:

| | |
|---|--------------------------|
| Proportionate share of pension liability | \$ 7,214,771 |
| Less proportionate share of net pension restricted for pension benefits | <u>7,217,321</u> |
| Proportionate share of net pension liability (asset) | <u><u>\$ (2,550)</u></u> |

At June 30, 2021, the School District reported a liability (asset) of (\$2,550) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2020, 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, 2020, the School District’s proportion was 0.0586901%, which is a decrease of 0..0001361%, from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the School District recognized pension expense of \$114,565. At June 30, 2021, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ 9,751 | \$ 1,997 |
| Changes in assumption | 82,102 | 331,122 |
| Net difference between projected and actual earnings on pension plan investments | 236,908 | - |
| Changes in proportion and difference between School District contributions and proportionate share of contributions | 2,012 | 1,893 |
| School District contributions subsequent to the measurement date | <u>80,100</u> | <u>-</u> |
| Total | <u><u>\$ 410,873</u></u> | <u><u>\$ 335,012</u></u> |

There is \$80,100 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 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:

| <u>Year Ended June 30:</u> | <u>Amount</u> |
|----------------------------|---------------|
| 2022 | \$ (30,193) |
| 2023 | (22,042) |
| 2024 | 3,808 |
| 2025 | 44,188 |
| | <hr/> |
| Total | \$ (4,239) |
| | <hr/> <hr/> |

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|------------------|---|
| Inflation | 2.25% |
| Salary increases | 6.50% at entry to 3.00% after 25 years of service |
| Discount rate | 6.50% net of plan investment expense |
| Future COLAS | 1.41% |

Mortality rates are based on 97% of the RP-2014 Mortality Table, adjusted to 2016, and 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, 2020, 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 a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2020, (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% | 5.1% |
| Fixed Income | 30.0% | 1.5% |
| Real Estate | 10.0% | 6.2% |
| Cash | 2.0% | 1.0% |
| Total | <u>100.0%</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 employee contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of Asset to Changes in the Discount Rate

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

| | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
|--|--------------------|------------------------------|--------------------|
| School District's proportionate share of the net pension liability (asset) | \$ 988,804 | \$ (2,550) | \$ (813,456) |

Pension Plan Fiduciary Net Position

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



Required Supplementary Information
June 30, 2021

Frederick Area School District No. 6-2

Frederick Area School District No. 6-2
 Budgetary Comparison Schedules – Budgetary Basis – General Fund
 Year Ended June 30, 2021

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|------------------|------------------|----------------------|-------------------------------|
| | Original | Final | (Budgetary Basis) | Positive (Negative) |
| Revenues | | | | |
| Revenue from local sources | | | | |
| Taxes: | | | | |
| Ad valorem taxes | \$ 854,376 | \$ 854,376 | \$ 846,011 | \$ (8,365) |
| Prior year's ad valorem taxes | 4,000 | 4,000 | 2,012 | (1,988) |
| Gross receipts taxes | 60,000 | 60,000 | 62,907 | 2,907 |
| Penalties and interest on taxes | 2,500 | 2,500 | 2,483 | (17) |
| Earnings on investments and deposits | 16,600 | 16,600 | 11,062 | (5,538) |
| Co-curricular activities: | | | | |
| Admissions | 7,700 | 7,700 | 6,909 | (791) |
| Rentals | - | - | 180 | 180 |
| Other pupil activity income | 15,950 | 15,950 | 21,808 | 5,858 |
| Other revenue from local sources: | | | | |
| Contributions and donations | 500 | 500 | 568 | 68 |
| Services provided other school districts | - | - | 4,157 | 4,157 |
| Refund of prior period expenditures | - | - | 231 | 231 |
| Judgments | - | - | 63 | 63 |
| Charges for services | 2,000 | 2,000 | 2,962 | 962 |
| Other | 7,200 | 7,200 | 7,407 | 207 |
| Revenue from intermediate sources | | | | |
| County sources: | | | | |
| County apportionment | 9,500 | 9,500 | 6,763 | (2,737) |
| Revenue from state sources | | | | |
| Grants-in-aid: | | | | |
| Unrestricted grants-in-aid | 488,202 | 488,202 | 492,639 | 4,437 |
| Other state revenue | 200 | 200 | - | (200) |
| Revenue from federal sources | | | | |
| Grants-in-aid: | | | | |
| Unrestricted grants-in-aid received from federal government through the state | - | - | 81,000 | 81,000 |
| Restricted grants-in-aid Received from federal government through the state | 98,780 | 98,780 | 86,609 | (12,171) |
| Restricted grants-in-aid received directly from federal government | 10,538 | 10,538 | 10,538 | - |
| Other federal revenue | 500 | 500 | 355 | (145) |
| Total revenues | 1,578,546 | 1,578,546 | 1,646,664 | 68,118 |

Frederick Area School District No. 6-2
 Budgetary Comparison Schedules – Budgetary Basis – General Fund
 Year Ended June 30, 2021

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|-------------------|-------------------|---|---|
| | Original | Final | | |
| Expenditures | | | | |
| Instruction | | | | |
| Regular programs: | | | | |
| Elementary | 460,292 | 470,674 | 497,125 | (26,451) |
| Middle/junior high | 117,830 | 120,142 | 118,195 | 1,947 |
| High school | 255,206 | 262,560 | 257,371 | 5,189 |
| Special programs: | | | | |
| Educationally deprived | 56,616 | 56,616 | 53,083 | 3,533 |
| Support services | | | | |
| Students: | | | | |
| Guidance | 58,918 | 60,054 | 59,194 | 860 |
| Support services - instructional staff: | | | | |
| Improvement of instruction | 6,390 | 6,390 | 2,254 | 4,136 |
| Educational media | 71,653 | 72,789 | 69,236 | 3,553 |
| Support services - general administration: | | | | |
| Board of Education | 66,042 | 121,918 | 118,296 | 3,622 |
| Executive administration | 89,845 | 92,205 | 91,938 | 267 |
| Support services - school administration: | | | | |
| Office of the Principal | 133,151 | 139,382 | 136,818 | 2,564 |
| Other | 268 | 268 | 219 | 49 |
| Support services - business: | | | | |
| Fiscal services | 90,974 | 93,666 | 92,465 | 1,201 |
| Operation and maintenance of plant | 233,221 | 243,056 | 228,651 | 14,405 |
| Pupil transportation | 110,970 | 132,691 | 127,451 | 5,240 |
| Other | 16,151 | 18,146 | 16,457 | 1,689 |
| Co-curricular activities | | | | |
| Male activities | 23,252 | 24,905 | 25,954 | (1,049) |
| Female activities | 16,087 | 19,597 | 19,494 | 103 |
| Transportation | 10,596 | 10,914 | 11,319 | (405) |
| Combined activities | 44,995 | 65,934 | 64,164 | 1,770 |
| Contingencies | 30,000 | 30,000 | - | 30,000 |
| Amount transferred | - | (29,443) | - | (29,443) |
| Total expenditures | <u>1,892,457</u> | <u>2,012,464</u> | <u>1,989,684</u> | <u>22,780</u> |
| Excess of Revenue over (under) Expenditures | <u>(313,911)</u> | <u>(433,918)</u> | <u>(343,020)</u> | <u>90,898</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | - | 366,125 | 366,125 |
| Transfers out | (21,745) | (21,745) | (21,745) | - |
| Total other financing sources (uses) | <u>(21,745)</u> | <u>(21,745)</u> | <u>344,380</u> | <u>366,125</u> |
| Net Change in Fund Balances | (335,656) | (455,663) | 1,360 | 457,023 |
| Fund Balance - Beginning | <u>876,561</u> | <u>876,561</u> | <u>876,561</u> | <u>-</u> |
| Fund Balance - Ending | <u>\$ 540,905</u> | <u>\$ 420,898</u> | <u>\$ 877,921</u> | <u>\$ 457,023</u> |

Frederick Area School District No. 6-2
 Budgetary Comparison Schedules – Budgetary Basis – Capital Outlay Fund
 Year Ended June 30, 2021

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|----------------------|-------------------------------|
| | Original | Final | (Budgetary Basis) | Positive (Negative) |
| Revenues | | | | |
| Revenue from local sources | | | | |
| Taxes: | | | | |
| Ad valorem taxes | \$ 685,596 | \$ 685,596 | \$ 672,003 | \$ (13,593) |
| Prior year's ad valorem taxes | 3,400 | 3,400 | 1,331 | (2,069) |
| Penalties and interest on taxes | 2,500 | 2,500 | 2,508 | 8 |
| Other revenue from local sources: | | | | |
| Contributions and donations | - | - | 50 | 50 |
| Other | - | - | 11,109 | 11,109 |
| Revenue from federal sources | | | | |
| Grants-in-aid: | | | | |
| Restricted grants-in-aid received from federal government through the state | 17,637 | 17,637 | 17,637 | - |
| Total revenues | <u>709,133</u> | <u>709,133</u> | <u>704,638</u> | <u>(4,495)</u> |
| Expenditures | | | | |
| Instruction | | | | |
| Regular programs: | | | | |
| Elementary | 27,716 | 27,716 | 4,507 | 23,209 |
| Middle/junior high | 9,324 | 9,324 | 4,083 | 5,241 |
| High school | 16,662 | 16,662 | 4,164 | 12,498 |
| Support services | | | | |
| Support services - instructional staff: | | | | |
| Guidance | 45 | 45 | 111 | (66) |
| Educational media | 23,038 | 23,038 | 23,322 | (284) |
| Support services - general administration: | | | | |
| Executive administration | 300 | 300 | 300 | - |
| Support services - school administration: | | | | |
| Office of the Principal | 1,483 | 1,483 | 1,639 | (156) |
| Support services - business: | | | | |
| Fiscal services | 5,850 | 5,850 | 182 | 5,668 |
| Facilities acquisition and construction | 130,000 | 130,000 | 129,517 | 483 |
| Operation and maintenance of plant | 48,696 | 48,696 | 36,550 | 12,146 |
| Pupil transportation | 63,766 | 63,766 | 63,766 | - |
| Food service | 8,993 | 8,993 | 8,254 | 739 |
| Debt service | | | | |
| Co-curricular activities | | | | |
| Male activities | 922 | 922 | 912 | 10 |
| Female activities | 2,432 | 2,432 | 1,936 | 496 |
| Combined activities | - | - | 3,353 | (3,353) |
| Total expenditures | <u>339,227</u> | <u>339,227</u> | <u>282,596</u> | <u>56,631</u> |
| Excess of Revenue over (under) Expenditures | <u>369,906</u> | <u>369,906</u> | <u>422,042</u> | <u>52,136</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers out | (376,810) | (376,810) | (366,125) | 10,685 |
| Sale of surplus property | 500 | 500 | 200 | (300) |
| Total other financing sources (uses) | <u>(376,310)</u> | <u>(376,310)</u> | <u>(365,925)</u> | <u>10,385</u> |
| Net Change in Fund Balance | (6,404) | (6,404) | 56,117 | 62,521 |
| Fund Balance - Beginning | <u>2,053,708</u> | <u>2,053,708</u> | <u>2,053,708</u> | <u>-</u> |
| Fund Balance - Ending | <u>\$ 2,047,304</u> | <u>\$ 2,047,304</u> | <u>\$ 2,109,825</u> | <u>\$ 62,521</u> |

Frederick Area School District No. 6-2
 Budgetary Comparison Schedules – Budgetary Basis – Special Education Fund
 Year Ended June 30, 2021

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---------------------------------------|----------------------------|----------------------------|----------------------------|-------------------------------|
| | Original | Final | (Budgetary Basis) | Positive (Negative) |
| Revenues | | | | |
| Revenue from local sources | | | | |
| Taxes: | | | | |
| Ad valorem taxes | \$ 324,275 | \$ 324,275 | \$ 317,802 | \$ (6,473) |
| Prior year's ad valorem taxes | 2,000 | 2,000 | 705 | (1,295) |
| Penalties and interest on taxes | 1,700 | 1,700 | 1,211 | (489) |
| Other revenue from local sources: | | | | |
| Other | 2,150 | 2,150 | 1,307 | (843) |
| Total revenues | <u>330,125</u> | <u>330,125</u> | <u>321,025</u> | <u>(9,100)</u> |
| Expenditures | | | | |
| Instruction | | | | |
| Special programs: | | | | |
| Programs for special education | 211,682 | 212,782 | 196,649 | 16,133 |
| Support services | | | | |
| Students: | | | | |
| Psychological | 4,000 | 4,000 | 3,813 | 187 |
| Speech pathology | 10,500 | 10,500 | 9,707 | 793 |
| Student therapy services | 20,200 | 23,150 | 20,584 | 2,566 |
| Support services - special education: | | | | |
| Administrative costs | 5,917 | 5,917 | 4,716 | 1,201 |
| Transportation costs | - | - | 468 | (468) |
| Total expenditures | <u>252,299</u> | <u>256,349</u> | <u>235,937</u> | <u>20,412</u> |
| Net Change in Fund Balance | 77,826 | 73,776 | 85,088 | 11,312 |
| Fund Balance - Beginning | <u>1,524,994</u> | <u>1,524,994</u> | <u>1,524,994</u> | <u>-</u> |
| Fund Balance - Ending | <u><u>\$ 1,602,820</u></u> | <u><u>\$ 1,598,770</u></u> | <u><u>\$ 1,610,082</u></u> | <u><u>\$ 11,312</u></u> |

Note 1 - Basis of Presentation

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

Note 2 - Budgetary Legal Requirements

Budgets and Budgetary Accounting

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

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

Frederick Area School District No. 6-2
 Schedule of Employer's Share of Net Pension Liability (Asset)
 Year Ended June 30, 2021

| Pension Plan | Fiscal Year Ending | Employer's Percentage of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Employer's Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset) |
|--------------|-----------------------|--|---|--------------------------------------|--|---|
| SDRS | 6/30/2021 | 0.0587% | \$ (2,550) | \$ 1,289,335 | -0.2% | 100.04% |
| SDRS | 6/30/2020 | 0.0588% | (6,234) | 1,250,723 | -0.5% | 100.09% |
| SDRS | 6/30/2019 | 0.0591% | (1,380) | 1,219,480 | -0.1% | 100.02% |
| SDRS | 6/30/2018 | 0.0596% | (5,407) | 1,210,603 | -0.4% | 100.1% |
| SDRS | 6/30/2017 | 0.0545% | 183,944 | 1,035,460 | 17.8% | 96.9% |
| SDRS | 6/30/2016 | 0.0539% | (228,630) | 984,164 | -23.2% | 104.1% |
| SDRS | 6/30/2015 | 0.0552% | (397,875) | 965,734 | -41.2% | 107.3% |

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

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

Frederick Area School District No. 6-2
 Schedule of Employer's Contributions
 Year Ended June 30, 2021

| Pension Plan | Fiscal Year Ending | Statutorily Required Contribution (a) | Contributions Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Covered Payroll (d) | Contributions Percentage of Covered- Employee Payroll (b/d) |
|--------------|-----------------------|--|---|---|------------------------|---|
| SDRS | 6/30/2021 | \$ 80,100 | \$ 80,100 | \$ - | \$ 1,335,006 | 6.0% |
| SDRS | 6/30/2020 | 77,360 | 77,360 | - | 1,289,335 | 6.0% |
| SDRS | 6/30/2019 | 75,045 | 75,045 | - | 1,250,723 | 6.0% |
| SDRS | 6/30/2018 | 73,169 | 73,169 | - | 1,219,480 | 6.0% |
| SDRS | 6/30/2017 | 72,636 | 72,636 | - | 1,210,603 | 6.0% |
| SDRS | 6/30/2016 | 62,128 | 62,128 | - | 1,035,460 | 6.0% |
| SDRS | 6/30/2015 | 59,050 | 59,050 | - | 984,164 | 6.0% |

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

Changes from Prior Valuation

The June 30, 2020 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2019 Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

The details of the changes since the last valuation are as follows:

Benefit Provision Changes

Legislation enacted in 2020 established a Qualified Benefit Preservation Arrangement (QBPA) under Section 415(m) of the Internal Revenue Code (IRC). The QBPA is effective July 1, 2020, and pays a portion of SDRS benefits that are restricted by IRC Section 415(b). The total benefits paid from SDRS and the QBPA will be limited to the applicable 415(b) annual limit, unreduced for early commencement if Members retire prior to age 62 and actuarially increased for late retirement up to age 70 if Members retire after age 65. The Actuarial Valuation considers benefits payable from both SDRS and the QBPA.

Legislation enacted in 2020 also brought the assets and the liabilities of the South Dakota Department of Labor and Regulation Plan into SDRS effective July 1, 2020. With the exception of the accounting results presented in Section 6 of this report, all exhibits include the assets, liabilities, and member counts of the former Department of Labor and Regulation Plan Members.

Actuarial Assumption Changes

The SDRS COLA equals 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, 2019, and exists again this year as of June 30, 2020. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.88% as of June 30, 2019, and is 1.41% as of June 30, 2020.

The changes in actuarial assumptions due to the 1.41% restricted maximum COLA decreased the Actuarial Accrued Liability by \$595 million, or 4.6% of the Actuarial Accrued Liability based on the 1.88% restricted maximum COLA.

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.

Actuarial Method Changes

No changes in actuarial methods were made since the prior 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***

The School Board
Frederick Area School District No. 6-2
Frederick, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frederick Area School District No. 6-2 (the School District) as of and for the year ended June 30, 2021, 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 April 21, 2022.

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 schedule of findings as 2021-001 and 2021-002 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*.

Frederick Area School District's Response to Findings

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
April 21, 2022

Current Audit Findings and Recommendations

Finding 2021-001 - Lack of Segregation of Duties

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

Condition: Frederick Area School District No. 6-2 has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions due to a lack of segregation of duties.

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

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

Recommendation: Although it is recognized that 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.

Views of Responsible Officials: Management agrees with the finding.

Finding 2021-002 - Preparation of Financial Statements and Footnotes and Material Proposed Adjustments to the Financial Statements

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

Condition: Frederick Area School District No. 6-2 does not have an internal control system designed to provide for the preparation of the financial statements being audited, including required footnotes and disclosures and all necessary material audit adjustments, in accordance with generally accepted accounting principles.

Cause: The School District does not have adequate staff trained to prepare the financial statements and footnotes including adjustments to material account balances.

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.

Views of Responsible Officials: Management agrees with the finding.