



Financial Statements
June 30, 2019

Groton Area School District 06-6

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Independent Auditor's Report

The School Board
Groton Area School District 06-6
Groton, 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 Groton Area School District 06-6 (the School District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Groton Area School District 06-6, as of June 30, 2019, 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 budgetary comparison schedules, schedule of employer's share of net pension liability (asset), and schedule of employer's contributions as listed on pages 41 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our 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 accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our 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 February 4, 2020, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Aberdeen, South Dakota
February 4, 2020

Groton Area School District 06-6
Statement of Net Position
June 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,552,955	\$ 47,733	\$ 3,600,688
Taxes receivable	2,842,729	-	2,842,729
Accounts receivable	731,077	6,924	738,001
Inventories	-	13,088	13,088
Net pension asset	3,822	109	3,931
Capital assets:			
Land, improvements and construction in progress	116,491	-	116,491
Other capital assets, net of depreciation	11,446,411	12,449	11,458,860
Total assets	<u>18,693,485</u>	<u>80,303</u>	<u>18,773,788</u>
Deferred Outflows of Resources			
Pension related deferred outflows	1,328,893	37,965	1,366,858
	<u>\$ 20,022,378</u>	<u>\$ 118,268</u>	<u>\$ 20,140,646</u>
Liabilities			
Accounts payable	\$ 33,449	\$ -	\$ 33,449
Other current liabilities	428,926	-	428,926
Unearned revenue	-	13,288	13,288
Noncurrent liabilities:			
Due within one year	839,171	-	839,171
Due in more than one year	7,756,412	-	7,756,412
Total liabilities	<u>9,057,958</u>	<u>13,288</u>	<u>9,071,246</u>
Deferred Inflows of Resources			
Pension related deferred inflows	289,477	8,272	297,749
Taxes levied for future period	2,959,426	-	2,959,426
Total deferred inflows of resources	<u>3,248,903</u>	<u>8,272</u>	<u>3,257,175</u>
Net Position			
Net investment in capital assets	3,237,000	12,449	3,249,449
Restricted for:			
Capital outlay	1,509,711	-	1,509,711
Special education	170,351	-	170,351
Pension	199	-	199
SDRS pension benefits	1,043,238	29,802	1,073,040
Debt service	154,763	-	154,763
Unrestricted	1,600,255	54,457	1,654,712
Total net position	<u>7,715,517</u>	<u>96,708</u>	<u>7,812,225</u>
	<u>\$ 20,022,378</u>	<u>\$ 118,268</u>	<u>\$ 20,140,646</u>

Groton Area School District 06-6
Statement of Activities
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government						
Governmental activities:						
Instruction	\$ 3,855,109	\$ 17,555	\$ 132,015	\$ (3,705,539)	\$ -	\$ (3,705,539)
Support services	2,652,893	885	-	(2,652,008)	-	(2,652,008)
Community services	1,359	-	-	(1,359)	-	(1,359)
*Interest on long-term debt	167,443	-	-	(167,443)	-	(167,443)
Co-curricular activities	315,849	134,167	-	(181,682)	-	(181,682)
Total governmental activities	<u>6,992,653</u>	<u>152,607</u>	<u>132,015</u>	<u>(6,708,031)</u>	<u>-</u>	<u>(6,708,031)</u>
Business-type activities:						
Food service	247,216	158,355	65,302	-	(23,559)	(23,559)
After school program	83,951	54,924	8,120	-	(20,907)	(20,907)
Driver's education	3,600	9,800	-	-	6,200	6,200
Total business-type activities	<u>334,767</u>	<u>223,079</u>	<u>73,422</u>	<u>-</u>	<u>(38,266)</u>	<u>(38,266)</u>
Total primary government	<u>\$ 7,327,420</u>	<u>\$ 375,686</u>	<u>\$ 205,437</u>	<u>(6,708,031)</u>	<u>(38,266)</u>	<u>(6,746,297)</u>
General Revenues						
Taxes:						
Property taxes				6,345,418	-	6,345,418
Gross receipts tax				731,077	-	731,077
Revenue from state sources:						
State aid				323,904	-	323,904
Other				6,097	-	6,097
Revenue from Federal sources				8,322	-	8,322
Grants and contributions not restricted to specific programs				2,758	-	2,758
Unrestricted investment earnings				5,915	-	5,915
Other general revenues				62,348	-	62,348
Total general revenues				<u>7,485,839</u>	<u>-</u>	<u>7,485,839</u>
Transfers				<u>(25,000)</u>	<u>25,000</u>	<u>-</u>
Change in Net Position				752,808	(13,266)	739,542
Net Position - Beginning				<u>6,962,709</u>	<u>109,974</u>	<u>7,072,683</u>
Net Position - Ending				<u>\$ 7,715,517</u>	<u>\$ 96,708</u>	<u>\$ 7,812,225</u>

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

Groton Area School District 06-6
Balance Sheets – Governmental Funds
June 30, 2019

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Elementary School Project Fund	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 1,557,636	\$ 1,572,936	\$ 264,037	\$ -	\$ 158,346	\$ -	\$ 3,552,955
110 Taxes receivable - current	1,491,507	803,428	425,310	-	99,876	-	2,820,121
112 Taxes receivable - delinquent	13,922	4,623	2,997	199	867	-	22,608
140 Due from local governments	584,451	-	-	-	-	-	584,451
140 Due from state government	146,626	-	-	-	-	-	146,626
	<u>\$ 3,794,142</u>	<u>\$ 2,380,987</u>	<u>\$ 692,344</u>	<u>\$ 199</u>	<u>\$ 259,089</u>	<u>\$ -</u>	<u>\$ 7,126,761</u>
Liabilities, Deferred Inflows of Resources and Fund Balances							
Liabilities							
402 Accounts payable	\$ 27,778	\$ 5,671	\$ -	\$ -	\$ -	\$ -	\$ 33,449
404 Contracts payable	238,506	-	49,914	-	-	-	288,420
406 Retainage payable	-	12,895	-	-	-	-	12,895
450 Payroll deductions and withholdings and employer matching payable	106,931	-	20,680	-	-	-	127,611
Total liabilities	<u>373,215</u>	<u>18,566</u>	<u>70,594</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>462,375</u>
Deferred Inflows of Resources							
553 Taxes levied for future period	1,550,991	852,710	451,399	-	104,326	-	2,959,426
551 Unavailable revenue - delinquent property taxes	13,922	4,623	2,997	199	867	-	22,608
Total deferred inflows of resources	<u>1,564,913</u>	<u>857,333</u>	<u>454,396</u>	<u>199</u>	<u>105,193</u>	<u>-</u>	<u>2,982,034</u>
Fund Balances							
Restricted:							
Capital outlay	-	1,505,088	-	-	-	-	1,505,088
Special education	-	-	167,354	-	-	-	167,354
Bond redemption	-	-	-	-	153,896	-	153,896
Assigned:							
Unemployment	32,052	-	-	-	-	-	32,052
Unassigned	1,823,962	-	-	-	-	-	1,823,962
Total fund balances	<u>1,856,014</u>	<u>1,505,088</u>	<u>167,354</u>	<u>-</u>	<u>153,896</u>	<u>-</u>	<u>3,682,352</u>
	<u>\$ 3,794,142</u>	<u>\$ 2,380,987</u>	<u>\$ 692,344</u>	<u>\$ 199</u>	<u>\$ 259,089</u>	<u>\$ -</u>	<u>\$ 7,126,761</u>

Groton Area School District 06-6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2019

Total Fund Balances - Governmental Funds	\$ 3,682,352
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,562,902
Long-term debt and liabilities, including bonds payable, financing lease payables, SD SDBF assessment, capital lease payable, and early retirement payables are not due and payable in the current period and, therefore, are not reported in the funds.	(8,358,716)
Unamortized balance of premiums and discounts are not due and payable in the current period and, therefore, are not reported in the funds.	(236,867)
Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and, therefore, are deferred inflows of resources in the funds.	22,608
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 reported in the funds.	<u>1,043,238</u>
Net Position - Governmental Funds	<u><u>\$ 7,715,517</u></u>

Groton Area School District 06-6
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2019

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Elementary School Project Fund	Total Governmental Funds
Revenues							
1000 Revenue from local sources							
1100 Taxes:							
1110 Ad valorem taxes	\$ 3,312,664	\$ 1,714,733	\$ 968,389	\$ -	\$ 229,510	\$ -	\$ 6,225,296
1120 Prior year's ad valorem taxes	60,788	37,401	22,849	635	7,780	-	129,453
1130 Tax deed revenue	1,362	555	294	-	102	-	2,313
1140 Gross receipt taxes	731,077	-	-	-	-	-	731,077
1190 Penalties and interest on taxes	8,822	2,765	1,686	160	554	-	13,987
1300 Tuition and fees:							
1360 Regular day school transportation fees	885	-	-	-	-	-	885
1500 Earnings on investments and deposits	5,915	-	-	-	-	-	5,915
1700 Co-curricular activities:							
1710 Admissions	39,162	-	-	-	-	-	39,162
1740 Rentals	2,965	-	-	-	-	-	2,965
1790 Other pupil activity income	92,040	-	-	-	-	-	92,040
1900 Other revenue from local sources:							
1910 Rentals	1,200	-	-	-	-	-	1,200
1920 Contributions and donations	2,758	-	-	-	-	-	2,758
1970 Charges for services	7,016	-	10,539	-	-	-	17,555
1990 Other	22,800	-	143	-	-	-	22,943
2000 Revenue from intermediate sources							
2100 County sources:							
2110 County apportionment	37,801	-	-	-	-	-	37,801
2200 Revenue in lieu of taxes	404	-	-	-	-	-	404
3000 Revenue from state sources							
3100 Grants-in-aid:							
3110 Unrestricted grants-in-aid	323,904	-	-	-	-	-	323,904
3120 Restricted grants-in-aid	1,681	-	-	-	-	-	1,681
3900 Other state revenue	825	-	5,272	-	-	-	6,097
4000 Revenue from federal sources							
4100 Grants-in-aid:							
4130 Unrestricted grants-in-aid received from federal government through an intermediate source	5,538	-	-	-	-	-	5,538
4140 Restricted grants-in-aid received directly from federal government	16,969	-	-	-	-	-	16,969
4150-4199 Restricted grants-in-aid received from federal government through the state	107,827	-	-	-	-	-	107,827
4900 Other federal revenue	-	8,322	-	-	-	-	8,322
Total revenues	<u>4,784,403</u>	<u>1,763,776</u>	<u>1,009,172</u>	<u>795</u>	<u>237,946</u>	<u>-</u>	<u>7,796,092</u>

Groton Area School District 06-6
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2019

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Elementary School Project Fund	Total Governmental Funds
Expenditures							
1000 Instruction							
1100 Regular programs:							
1110 Elementary	1,047,338	152,546	-	-	-	-	1,199,884
1120 Middle school/junior high	499,247	34,895	-	-	-	-	534,142
1130 High school	857,419	73,678	-	-	-	-	931,097
1140 Preschool services	30,045	1,608	-	-	-	-	31,653
1200 Special programs:							
1210 Gifted and talented	2,536	-	-	-	-	-	2,536
1220 Programs for special education	-	1,732	657,367	-	-	-	659,099
1230 At-risk youth	46,948	-	-	-	-	-	46,948
1250 Culturally different	5,560	-	-	-	-	-	5,560
1270 Educationally deprived	137,336	-	-	-	-	-	137,336
2000 Support services							
2100 Pupils:							
2120 Guidance	134,431	313	-	-	-	-	134,744
2130 Health	40,950	1,708	-	-	-	-	42,658
2140 Psychological	-	-	13,011	-	-	-	13,011
2150 Speech pathology	-	185	33,955	-	-	-	34,140
2170 Student therapy services	-	-	76,646	-	-	-	76,646
2200 Support services - instructional staff:							
2210 Improvement of instruction	18,314	-	-	-	-	-	18,314
2220 Educational media	132,935	39,871	-	-	-	-	172,806
2300 Support services - general administration:							
2310 Board of education	120,660	-	115	-	-	-	120,775
2320 Executive administration	134,587	295	-	-	-	-	134,882
2400 Support services - school administration:							
2410 Office of the principal	287,472	257	-	-	-	-	287,729
2490 Other	690	-	-	-	-	-	690
2500 Support services - business:							
2520 Fiscal services	176,271	-	-	-	-	-	176,271
2530 Facilities acquisition and construction	11,900	18,731	-	-	-	-	30,631
2540 Operation and maintenance of plant	696,257	14,682	-	-	-	-	710,939
2550 Pupil transportation	325,163	-	-	-	-	-	325,163

Groton Area School District 06-6
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2019

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Elementary School Project Fund	Total Governmental Funds
2700 Support services - special education:							
2710 Administrative costs	-	-	19,781	-	-	-	19,781
2730 Transportation costs	-	-	7,465	-	-	-	7,465
2740 Other health impairments	-	-	10,598	-	-	-	10,598
4000 Nonprogrammed charges							
4500 Early retirement payments	16,148	-	-	-	-	-	16,148
5000 Debt services	-	795,485	-	-	213,803	-	1,009,288
6000 Co-curricular activities							
6900 Combined activities	227,780	30,817	-	-	-	-	258,597
7500 Capital outlay	-	150,918	-	-	-	202,935	353,853
Total expenditures	4,949,987	1,317,721	818,938	-	213,803	202,935	7,503,384
Excess of Revenue over (under) Expenditures	(165,584)	446,055	190,234	795	24,143	(202,935)	292,708
Other Financing Sources							
5510 Transfers in	500,795	1,018,832	-	-	-	-	1,519,627
8110 Transfer out	(25,000)	(500,000)	-	(795)	-	(1,018,832)	(1,544,627)
5120 General long-term debt issued	-	107,829	-	-	-	-	107,829
Total other financing sources	475,795	626,661	-	(795)	-	(1,018,832)	82,829
Net Change in Fund Balances	310,211	1,072,716	190,234	-	24,143	(1,221,767)	375,537
Fund Balance - Beginning	1,545,803	432,372	(22,880)	-	129,753	1,221,767	3,306,815
Fund Balance - Ending	\$ 1,856,014	\$ 1,505,088	\$ 167,354	\$ -	\$ 153,896	\$ -	\$ 3,682,352

Groton Area School District 06-6

Reconciliation to the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-
Wide Statement of Activities
Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds	\$ 375,537
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$353,853) exceeded depreciation (\$341,380) in the current period.	12,473
In both the government-wide and fund financial statements, revenues from tax levies are applied to finance the budget of a particular period. Accounting for revenues from tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available." This amount reflects the application of both the application period and "availability criteria."	(25,631)
The issuance of long-term debt is another financing source in the fund statements but an increase in long-term liabilities on the government-wide statements.	(107,829)
Repayment of early retirement principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. New early retirement approved was \$60,000, payments of early retirement were \$15,000.	(45,000)
Governmental funds report the effect of premiums and discounts when the debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities. This is the amount amortized in the current period.	13,557
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	829,436
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.	<u>(299,735)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 752,808</u></u>

Groton Area School District 06-6
Statement of Net Position – Proprietary Funds
June 30, 2019

	Enterprise Funds		
	Food Service Fund	Other	Total
Assets			
Current Assets			
101 Cash and cash equivalents	\$ 28,102	\$ 19,631	\$ 47,733
120 Accounts receivable	-	6,924	6,924
170 Inventory of supplies	2,186	-	2,186
171 Inventory of stores purchased for resale	4,298	-	4,298
172 Inventory of donated food	6,604	-	6,604
Total current assets	<u>41,190</u>	<u>26,555</u>	<u>67,745</u>
Noncurrent Assets			
196 Net pension asset	101	8	109
200 Capital assets:			
204 Machinery and equipment - local funds	124,941	-	124,941
Less accumulated depreciation	(112,492)	-	(112,492)
Total noncurrent assets	<u>12,550</u>	<u>8</u>	<u>12,558</u>
Deferred Outflows of Resources			
252 Pension related deferred outflows	<u>26,773</u>	<u>11,192</u>	<u>37,965</u>
Total assets and deferred outflows of resources	<u>\$ 80,513</u>	<u>\$ 37,755</u>	<u>\$ 118,268</u>
Liabilities, Deferred Inflows, and Net Position			
Current Liabilities			
474 Unearned revenue	<u>\$ 10,763</u>	<u>\$ 2,525</u>	<u>\$ 13,288</u>
Total current liabilities	<u>10,763</u>	<u>2,525</u>	<u>13,288</u>
Deferred Inflows of Resources			
554 Pension related deferred inflows	<u>5,685</u>	<u>2,587</u>	<u>8,272</u>
Net Position			
706 Net investment in capital assets	12,449	-	12,449
707.2 SDRS pension benefits	21,189	8,613	29,802
708 Unrestricted net position	30,427	24,030	54,457
Total net position	<u>64,065</u>	<u>32,643</u>	<u>96,708</u>
Total liabilities, deferred inflows, and net position	<u>\$ 80,513</u>	<u>\$ 37,755</u>	<u>\$ 118,268</u>

Groton Area School District 06-6
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
Year Ended June 30, 2019

	Enterprise Funds		
	Food Service Fund	Other	Total
Operating Revenue			
Tuition and fees			
1310 Student tuition	\$ -	\$ 9,800	\$ 9,800
1980 Parent tuition	-	54,924	54,924
Sales			
1610 To pupils	146,718	-	146,718
1620 To adults	1,942	-	1,942
1660 Other	9,695	-	9,695
Total operating revenue	<u>158,355</u>	<u>64,724</u>	<u>223,079</u>
Operating Expenses			
100 Salaries	83,032	55,704	138,736
200 Employee benefits	35,748	18,313	54,061
300 Purchased services	6,331	3,600	9,931
400 Supplies	9,606	9,934	19,540
461 Cost of sales - purchased food	100,152	-	100,152
462 Cost of sales - donated food	8,004	-	8,004
910 Depreciation - local funds	4,343	-	4,343
Total operating expenses	<u>247,216</u>	<u>87,551</u>	<u>334,767</u>
Operating Loss	<u>(88,861)</u>	<u>(22,827)</u>	<u>(111,688)</u>
Nonoperating Revenue			
Other local revenue			
1920 Contributions and donations	-	8,120	8,120
State sources			
3810 Cash reimbursements	979	-	979
Federal sources			
4810 Cash reimbursements	57,741	-	57,741
4820 Donated food	6,582	-	6,582
Total nonoperating revenue	<u>65,302</u>	<u>8,120</u>	<u>73,422</u>
Loss Before Transfers	<u>(23,559)</u>	<u>(14,707)</u>	<u>(38,266)</u>
Transfers In	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Change in Net Position	1,441	(14,707)	(13,266)
Net Position - Beginning	<u>62,624</u>	<u>47,350</u>	<u>109,974</u>
Net Position - Ending	<u>\$ 64,065</u>	<u>\$ 32,643</u>	<u>\$ 96,708</u>

See Notes to Financial Statements

Groton Area School District 06-6
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2019

	Enterprise Funds		
	Food Service Fund	Other	Total
Cash Flows provided from (used for) Operating Activities			
Receipts from customers	\$ 154,395	\$ 64,445	\$ 218,840
Payments to suppliers	(113,316)	(13,534)	(126,850)
Payments to employees	(113,600)	(70,626)	(184,226)
Net Cash used for Operating Activities	<u>(72,521)</u>	<u>(19,715)</u>	<u>(92,236)</u>
Cash Flows from Noncapital Financing Activities			
Contributions and donations	-	8,120	8,120
Transfers in	25,000	-	25,000
Operating subsidies	58,720	-	58,720
Net Cash from Noncapital Financing Activities	<u>83,720</u>	<u>8,120</u>	<u>91,840</u>
Net Change in Cash and Cash Equivalents	11,199	(11,595)	(396)
Cash and Cash Equivalents, Beginning of Year	<u>16,903</u>	<u>31,226</u>	<u>48,129</u>
Cash and Cash Equivalents, End of Year	<u>\$ 28,102</u>	<u>\$ 19,631</u>	<u>\$ 47,733</u>
Reconciliation of Operating Loss to Net Cash from (used for) Operating Activities:			
Operating loss	\$ (88,861)	\$ (22,827)	\$ (111,688)
Adjustments to reconcile operating loss to net cash from (used for) operating activities:			
Depreciation expense	4,343	-	4,343
Non-cash inventory costs	8,004	-	8,004
Change in assets and liabilities:			
Accounts receivable	-	(514)	(514)
Inventories	2,773	-	2,773
Pension liability, asset, deferred inflows and deferred outflows	5,180	3,391	8,571
Unearned revenue	(3,960)	235	(3,725)
Net Cash used for Operating Activities	<u>\$ (72,521)</u>	<u>\$ (19,715)</u>	<u>\$ (92,236)</u>
Noncash Investing, Capital and Financing Activities			
Value of commodities received	\$ 6,582	\$ -	\$ 6,582

Groton Area School District 06-6
 Statements of Fiduciary Net Position
 June 30, 2019

	Private Purpose Trust Fund	Agency Fund
Assets		
Cash	\$ -	\$ 274,624
Investments	100,430	-
	\$ 100,430	\$ 274,624
Liabilities		
Amounts held for others	\$ -	\$ 274,624
Total liabilities	-	274,624
Net Position		
Net position held in trust for scholarships	100,430	-
Total net position	100,430	-
	\$ 100,430	\$ 274,624

Groton Area School District 06-6
Statement of Changes in Fiduciary Net Position
June 30, 2019

	Private Purpose Trust Fund
Additions	
Investment income	<u>\$ 5,492</u>
Total additions	<u>5,492</u>
Deductions	
Scholarships	2,000
Investments fees	<u>1,407</u>
Total deductions	<u>3,407</u>
Change in Net Position	2,085
Net Position - Beginning	<u>98,345</u>
Net Position - Ending	<u><u>\$ 100,430</u></u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Groton Area School District 06-6 (the School District) conform to generally accepted accounting principles applicable to government entities in the United States of America.

Financial Reporting Entity

The School District formation is the result of the consolidation of Groton School District 06-6 and Bristol School District No. 18-1, as approved by voters in the respective districts, effective July 1, 2004. The School District consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the School District's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District. The School District does not have any 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 financial reporting entity as a component unit but are discussed in these notes because of the nature of their relationship with the School District.

Basis of Presentation

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

Governmental Funds

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

Special Revenue Fund Types - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Capital Outlay, Special Education, and Pension 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 which result in the lease of, acquisition of, or additions to, real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

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

Pension Fund - A fund established by SDCL 13-10-6 for the purpose of continuing a fund for the payment of pensions to retired employees of school districts, which have established such systems. This fund is financed by property taxes. This is a major fund.

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

Bond Redemption Fund - A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. The Bond Redemption Fund is the only debt service fund maintained by the School District. This is a major fund.

Capital Projects Funds – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

The Elementary School Project Fund is the only capital projects fund maintained by the School District. This is a major fund.

Proprietary Funds

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

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

Other Fund – A fund used to record financial transactions related to the driver's education operations and the after school program operations. This fund is financed by tuition charges and the after school program. This is a major fund.

Fiduciary Funds

Fiduciary Funds are never considered to be major funds.

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

Private-Purpose Trust Fund Types – Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefits individuals, private organizations, or other governments. The School District maintains the following private-purpose trust fund, which is used for the purpose of providing scholarships to students:

- Dick and Gert Ruden Scholarship Fund

Measurement Focus and Basis of Accounting

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

Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

Basis of Accounting

Government-Wide Financial Statements

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

Fund Financial Statements

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, 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. Utility tax receivables, which are accrued at June 30, 2019, are due from the state government for \$146,626 and the counties for \$584,451.

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

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

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

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

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

Fund Financial Statements

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

Capital Assets

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

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

Government-Wide Statements

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

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

The total June 30, 2019, balance of capital assets for governmental activities is valued at original cost. The total June 30, 2019, balance of capital assets for business-type activities is valued at original cost.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land*	All	N/A	N/A
Improvements	\$ 5,000	Straight-line	15-25 years
Buildings	25,000	Straight-line	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.

Unearned Revenue

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

Long-Term Debt and Other Long-Term Liabilities

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

All long-term debt and other liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt primarily consists of long-term bonds, direct financing leases, and SD SDBF assessment. The other long-term liabilities consist of capital leases and early retirement payables.

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

Program Revenues

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

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

Property Taxes

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

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

Proprietary Funds Revenue and Expense Classifications

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, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

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.

Cash and Cash Equivalents

The School District pools its cash resources for deposit purposes. Accordingly, the enterprise fund has access to its cash resources on demand. All reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the statements of cash flows. For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

Equity Classifications**Government-Wide Statements**

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

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

Fund Financial Statements

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

Application of Net Position

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

Fund Balance Classification Policies and Procedures

The School District classifies governmental fund balances as follows:

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

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

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

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

Major Special Revenue Fund

Capital Outlay
Special Education
Pension

Revenue Source

Property taxes and grants
Property taxes and grants
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.

Deferred Inflows and Outflows of Resources

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

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

Rounding

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

Note 2 - Deposits and Investments

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.

As of June 30, 2019, the financial institution that holds the School District's deposits was properly collateralized.

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

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

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 does not have a policy for custodial credit risk.

The actual bank balances at June 30, 2019, were as follows:

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 250,000
Uninsured, collateral jointly held by State's/School District's agent in the name of the State and the pledging financial institution	<u>3,742,770</u>
	<u>\$ 3,992,770</u>
The School District's carrying amount of deposits at June 30, 2019	<u><u>\$ 3,875,312</u></u>

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

Cash and cash equivalents	\$ 3,600,688
Add: Fiduciary fund cash (not included in government-wide statement of net position)	<u>274,624</u>
	<u><u>\$ 3,875,312</u></u>

Investments

In general, SDCL 4-5-6 permits School District funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) 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 that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. There are investments held in a private purpose trust fund as of June 30, 2019.

Custodial Credit Risk – For investments, custodial credit risk is 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. When the School District does own investments, they are held in the School District's name.

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 – Currently, the School District has no policy in regard to credit risk.

Concentration of Credit Risk – The School District does not have a policy in place.

Note 3 - Changes in Capital Assets

A summary of changes in capital assets for the year ended June 30, 2019, is as follows:

Primary Government Governmental Activities	Balance 7/1/2018	Increases	Decreases	Balance 6/30/2019
Capital assets not being depreciated:				
Land	\$ 103,596	\$ -	\$ -	\$ 103,596
Construction in progress	6,227,406	215,830	6,430,341	12,895
Total capital assets not being depreciated	<u>6,331,002</u>	<u>215,830</u>	<u>6,430,341</u>	<u>116,491</u>
Capital assets being depreciated:				
Buildings	8,465,942	6,430,341	-	14,896,283
Improvements other than buildings	1,063,258	-	-	1,063,258
Machinery and equipment	1,878,959	138,023	40,000	1,976,982
Total capital assets being depreciated	<u>11,408,159</u>	<u>6,568,364</u>	<u>40,000</u>	<u>17,936,523</u>
Less accumulated depreciation for:				
Buildings	4,056,358	173,150	-	4,229,508
Improvements other than buildings	674,360	74,644	-	749,004
Machinery and equipment	1,458,014	93,586	40,000	1,511,600
Total accumulated depreciation	<u>6,188,732</u>	<u>341,380</u> **	<u>40,000</u>	<u>6,490,112</u>
Total capital assets being depreciated, net	<u>5,219,427</u>	<u>6,226,984</u>	<u>-</u>	<u>11,446,411</u>
Governmental activity capital assets, net	<u>\$ 11,550,429</u>	<u>\$ 6,442,814</u>	<u>\$ 6,430,341</u>	<u>\$ 11,562,902</u>

** Depreciation expense was charged to functions as follows:

Governmental activities:			
Instruction			\$ 39,737
Support services			249,866
Community services			1,359
Co-curricular activities			50,418
Total depreciation expense - governmental activities			<u>\$ 341,380</u>

Proprietary Fund	Balance 7/1/2018	Increases	Decreases	Balance 6/30/2019
Capital assets being depreciated:				
Machinery and equipment	\$ 124,941	\$ -	\$ -	\$ 124,941
Total capital assets being depreciated	<u>124,941</u>	<u>-</u>	<u>-</u>	<u>124,941</u>
Less accumulated depreciation for:				
Machinery and equipment	108,149	4,343	-	112,492
Total accumulated depreciation	<u>108,149</u>	<u>4,343</u>	<u>-</u>	<u>112,492</u>
Total capital assets being depreciated, net	<u>16,792</u>	<u>(4,343)</u>	<u>-</u>	<u>12,449</u>
Proprietary fund activities capital assets, net	<u>\$ 16,792</u>	<u>\$ (4,343)</u>	<u>\$ -</u>	<u>\$ 12,449</u>

** Depreciation expense was charged to functions as follows:

Proprietary fund activities:			
Food services			\$ 4,343
Total depreciation expense - proprietary fund activities			<u>\$ 4,343</u>

Note 4 - Long-Term Debt

A summary of the changes in long-term debt for the year ended June 30, 2019, is as follows:

Governmental Activities	7/1/2018	Increase	Decrease	6/30/2019	Due In One Year
General obligation	\$ 8,735,000	\$ -	\$ (680,000)	\$ 8,055,000	\$ 685,000
Direct financing leases	54,837	69,000	(59,946)	63,891	40,901
SD SDBF assessment	237,702	-	(81,912)	155,790	77,310
Unamortized premium	250,424	-	(13,557)	236,867	13,557
	<u>\$ 9,277,963</u>	<u>\$ 69,000</u>	<u>\$ (835,415)</u>	<u>\$ 8,511,548</u>	<u>\$ 816,768</u>

Debt payable at June 30, 2019, is comprised of the following:

General Obligation Debt

Series 2016 General Obligation Bonds, matures December 2020, with interest rates varying from 1.00%-2.00% for the life of the loan, paid by the Bond Redemption Fund.	\$ 410,000
Series 2016 General Obligation Certificates, matures December 2036, with interest rates varying from 2.00%-4.00% for the life of the loan, paid by the Capital Outlay Fund.	7,645,000

Other Long-Term Debt

Choice Financial, laptops, matures August 2019, 2.95% interest, annual payments of \$19,266, paid by the Capital Outlay Fund.	18,715
Choice Financial, laptops, matures August 2020, 3.63% interest, annual payments of \$23,824, paid by the Capital Outlay Fund.	45,176
SD SDBF assessment payment as a result of the deficit position of the fund paid in 4 annual installments; final payment in October 2020 (see Note 8)	155,790
Plus unamortized premiums	<u>236,867</u>

\$ 8,511,548

The SD SDBF assessment was assessed to the School District as a result of the deficit position of the fund. The School Board decided to pay the assessment in 4 annual installment payments from October 2017 through October 2020. (See Note 8) This assessment is a non-interest bearing note.

The annual debt service requirements to maturity for all debt outstanding as of June 30, 2019, are as follows:

Year Ending June 30,	G.O. Bonds Payable		Direct Financing Leases		SD SDBF Assessment	Total	
	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2020	\$ 685,000	\$ 240,773	\$ 40,901	\$ 2,190	\$ 77,310	\$ 803,211	\$ 242,963
2021	700,000	227,486	22,990	834	78,480	801,470	228,320
2022	510,000	215,950	-	-	-	510,000	215,950
2023	520,000	205,650	-	-	-	520,000	205,650
2024	320,000	196,450	-	-	-	320,000	196,450
2025-2029	1,755,000	831,294	-	-	-	1,755,000	831,294
2030-2034	1,645,000	472,488	-	-	-	1,645,000	472,488
2035-2037	1,920,000	74,319	-	-	-	1,920,000	74,319
	<u>\$ 8,055,000</u>	<u>\$ 2,464,410</u>	<u>\$ 63,891</u>	<u>\$ 3,024</u>	<u>\$ 155,790</u>	<u>\$ 8,274,681</u>	<u>\$ 2,467,434</u>

Note 5 - Other Long-Term Liabilities

A summary of the changes in long-term debt for the year ended June 30, 2019, is as follows:

Governmental Activities	7/1/2018	Increase	Decrease	6/30/2019	Due In One Year
Capital leases	\$ 2,784	\$ 38,829	\$ (7,578)	\$ 34,035	\$ 7,403
Early retirement payable (See Note 6)	5,000	60,000	(15,000)	50,000	15,000
	<u>\$ 7,784</u>	<u>\$ 98,829</u>	<u>\$ (22,578)</u>	<u>\$ 84,035</u>	<u>\$ 22,403</u>

Other long-term liabilities at June 30, 2019, is comprised of the following:

Financing Leases

A&B Business, copiers, matures October 2023, 3.50% interest, monthly payments of \$706, paid by the Capital Outlay Fund.

\$ 34,035

Early Retirement

Requires annual payments of not more than \$15,000 from the General Fund, final payment in fiscal year 2023. (See Note 6)

50,000

\$ 84,035

The annual required payments to maturity for all other long-term liabilities outstanding as of June 30, 2019, is as follows:

Year Ending June 30,	Capital Leases		Early Retirement	Total	
	Principal	Interest	Principal	Principal	Interest
2020	\$ 7,403	\$ 1,073	\$ 15,000	\$ 22,403	\$ 1,073
2021	7,666	810	15,000	22,666	810
2022	7,939	537	15,000	22,939	537
2023	8,221	255	5,000	13,221	255
2024	2,806	20	-	2,806	20
	<u>\$ 34,035</u>	<u>\$ 2,695</u>	<u>\$ 50,000</u>	<u>\$ 84,035</u>	<u>\$ 2,695</u>

Note 6 - Special Termination Benefits

The School District has an early retirement policy in which the employee will receive a one-time benefit of \$20,000 payable in two different options: \$5,000 paid directly to retiree over 4 years or \$5,000 paid to a tax-free investment plan for four years. The employee must meet the following criteria: the employee has served the School District for at least 15 years and is between the ages of 55 and 63 as of June 30 of the retirement year. Employees hired after July 2015 will no longer be eligible for early retirement provisions. The maximum number of recipients approved in any one year shall not exceed four, and the chronological order in which the applications are received will determine the priority of the recipients. During the 2019 fiscal year, three new employees were approved to receive the benefit.

Note 7 - Fair Value

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the School District has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The School District invests in mutual funds. The mutual funds are valued on a recurring basis on readily determinable fair values based on daily redemption values and are classified within Level 1.

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. There have been no decreases in coverage from the previous fiscal year and settled claims have not exceeded coverage in any of the three previous fiscal years. During the year ended June 30, 2019, the School District managed its risks as follows:

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 \$3,000, and \$3,000 to \$6,000 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 resulting from these risks have not exceeded the liability coverage during the past three years.

At June 30, 2016, the South Dakota School District Health Benefits Fund had a deficit net position. During fiscal year 2017, SD SDBF issued a fund-wide assessment to all of the participating districts to make up this deficit net position. The amount assessed to the School District was \$307,000, which was payable in lump sum or by payment plan. The School District decided to pay the assessment in four annual installments. At June 30, 2019, the South Dakota School District Health Benefits Fund has a positive net position.

Liability Insurance

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

Worker's Compensation Insurance

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provides workers' compensation insurance coverage for participating members of the pool. The objective of the fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program, to give its employees safe and sanitary working conditions, and to promptly report to, and cooperate with, the pool to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees under a retrospectively-rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the pool members. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool-retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual per incident.

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

Unemployment Benefits

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

The School District has assigned fund balance in the General Fund in the amount of \$32,052 for the payment of future unemployment benefits.

At June 30, 2019, no claims had been filed for unemployment benefits and no claims are anticipated for unemployment in the next fiscal year.

Note 9 - Restricted Net Position

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

Fund	Restricted By	Amount
Capital Outlay	Law	\$ 1,509,711
Special Education	Law	170,351
Debt Service	Law	154,763
Pension	Law	199
SDRS Pension Benefits	Pension Plan	1,073,040
		\$ 2,908,064

Note 10 - Joint Ventures

The School District participates in the Northern High Tech Modules Consortium (Co-op), formed for the purpose of providing services to the member school districts.

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

Edmunds Central School District	Leola School District
Groton Area School District	Herreid School District
Eureka School District	Selby Area School District
Ipswich School District	Warner School District

The Warner School District serves as the school of record, and the advisory board is composed of one representative from each school district, who is the Superintendent. The Board oversees adopting the budget and setting service fees at a level adequate to fund the adopted budget.

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

Separate financial statements for this joint venture are available from Northern High Tech Modules Consortium.

At June 30, 2019, this joint venture had total fund equity of \$27,806 and no long-term debt.

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

Hitchcock-Tulare School District

Langford Area School District

Frederick Area School District

Northwestern Area School District

Edmunds Central School District

Doland School District

Leola School District

Groton Area School District

Warner 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.

Financial statements are available by contacting the North Central Special Education Cooperative.

At June 30, 2019, the North Central Special Education Cooperative had fund equity of \$293,527 and no long-term debt.

Note 11 - Pension Plan

Plan Information

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

Benefits Provided

SDRS has three different classes of employees, Class A 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 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, 2019, 2018, and 2017 were \$208,416, \$210,221, and \$207,498, 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, 2018, SDRS is 100.02% funded and, accordingly, has a net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System for the School District as of the measurement period ending June 30, 2018 and reported by the School District as of June 30, 2019, are as follows:

Proportionate share of total pension liability	\$ 20,617,551
Less proportionate share of net position restricted for pension benefits	<u>20,621,482</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (3,931)</u></u>

At June 30, 2019, the School District reported a liability (asset) of (\$3,931) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2018, 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, 2018, the School District's proportion was 0.16853510%, which is a decrease of 0.0016765% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the School District recognized a reduction of pension expense of \$308,309. At June 30, 2019, 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
	<u> </u>	<u> </u>
Difference between expected and actual experience	\$ 148,563	\$ -
Changes in assumption	997,918	-
Net difference between projected and actual earnings on pension plan investments	-	297,064
Changes in proportion and difference between School District contributions and proportionate share of contributions	11,961	685
School District contributions subsequent to the measurement date	<u>208,416</u>	<u>-</u>
	<u><u>\$ 1,366,858</u></u>	<u><u>\$ 297,749</u></u>

There is \$208,416 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, 2020. 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>
2020	\$ 540,219
2021	401,902
2022	(49,300)
2023	(32,128)
	<u>\$ 860,693</u>

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on 97% of the RP- 2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

A detailed experience analysis covering the period from June 30, 2011 to June 30, 2016, was conducted and appropriate modifications in the economic and demographic assumptions were made effective with the June 30, 2017, actuarial valuation.

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, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
	<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 plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of Liability (Asset) to 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 one percentage point lower (5.50%) or one 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)	\$ 2,968,727	\$ (3,931)	\$ (2,422,026)

Pension Plan Fiduciary Net Position

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

Note 12 - Interfund Transactions

During 2019, the School District made the following transfers:

- The Capital Outlay Fund transferred \$500,000 to the General Fund as allowed by SDCL 13-16-6 to cover certain operating expenses.
- The Pension Fund transferred \$795 to the General Fund to help cover costs on pension expenses.
- The Elementary School Project Fund transferred \$1,018,832 to the Capital Outlay Fund to close out the fund as the elementary project had been completed.
- The General Fund transferred \$25,000 to the Food Service Fund to help cover costs on food service expenses.



Required Supplementary Information
June 30, 2019

Groton Area School District 06-6

Groton Area School District 06-6
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 3,132,479	\$ 3,132,479	\$ 3,312,664	\$ 180,185
1120 Prior year's ad valorem taxes	9,000	9,000	60,788	51,788
1130 Tax deed revenue	-	-	1,362	1,362
1140 Gross receipts taxes	695,000	695,000	731,077	36,077
1190 Penalties and interest on taxes	5,700	5,700	8,822	3,122
1300 Tuition and fees:				
1360 Regular day school transportation fees	650	650	885	235
1500 Earnings on investments and deposits	5,000	5,000	5,915	915
1700 Co-curricular activities:				
1710 Admissions	42,000	42,000	39,162	(2,838)
1740 Rentals	2,400	2,400	2,965	565
1790 Other pupil activity income	74,500	74,500	92,040	17,540
1900 Other revenue from local sources:				
1910 Rentals	1,200	1,200	1,200	-
1920 Contributions and donations	4,000	4,000	2,758	(1,242)
1970 Charges for services	6,000	6,000	7,016	1,016
1990 Other	17,000	17,000	22,800	5,800
2000 Revenue from intermediate sources				
2100 County sources:				
2110 County apportionment	44,000	44,000	37,801	(6,199)
2200 Revenue in lieu of taxes	300	300	404	104
3000 Revenue from state sources				
3100 Grants-in-aid:				
3110 Unrestricted grants-in-aid	293,402	293,402	323,904	30,502
3120 Restricted grants-in-aid	9,500	9,500	1,681	(7,819)
3900 Other state revenue	900	900	825	(75)
4000 Revenue from federal sources:				
4100 Grants-in-aid:				
4130 Unrestricted grants-in-aid received from federal government through an intermediate source	5,300	5,300	5,538	238
4140 Restricted grants-in-aid received directly from federal government	16,969	16,969	16,969	-
4150-4199 Restricted grants-in-aid received from federal government through the state	107,827	107,827	107,827	-
Total revenues	4,473,127	4,473,127	4,784,403	311,276
Expenditures				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	1,083,574	1,083,574	1,047,338	36,236
1111 Middle school/junior high	516,523	516,523	499,247	17,276
1130 High school	937,842	937,842	857,419	80,423
1140 Preschool services	32,866	32,866	30,045	2,821
1190 Other regular programs	1,500	1,500	-	1,500

Groton Area School District 06-6
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
1200 Special programs:				
1210 Gifted and talented	5,553	5,553	2,536	3,017
1230 At-risk youth	47,136	47,136	46,948	188
1250 Culturally different	6,679	6,679	5,560	1,119
1270 Educationally deprived	139,084	139,084	137,336	1,748
2000 Support services				
2100 Pupils:				
2120 Guidance	137,835	137,835	134,431	3,404
2130 Health	41,670	41,670	40,950	720
2200 Support services - instructional staff:				
2210 Improvement of instruction	27,749	27,749	18,314	9,435
2220 Educational media	145,082	145,082	132,935	12,147
2300 Support services - general administration:				
2310 Board of education	142,418	142,418	120,660	21,758
2320 Executive administration	138,914	138,914	134,587	4,327
2400 Support services - school administration:				
2410 Office of the principal	295,104	295,104	287,472	7,632
2490 Other	1,000	1,000	690	310
2500 Support services - business:				
2520 Fiscal services	182,286	182,286	176,271	6,015
2530 Facilities acquisition and construction	5,000	5,000	11,900	(6,900)
2540 Operation and maintenance of plant	692,136	692,136	696,257	(4,121)
2550 Pupil transportation	345,626	345,626	325,163	20,463
4000 Nonprogrammed charges				
4500 Early retirement payments	20,148	20,148	16,148	4,000
6000 Co-curricular activities				
6900 Combined activities	247,576	247,576	227,780	19,796
7000 Contingencies	50,000	50,000	-	50,000
Total expenditures	5,243,301	5,243,301	4,949,987	293,314
Excess of Revenue over (under) Expenditures	(770,174)	(770,174)	(165,584)	604,590
Other Financing Sources				
5510 Transfers in	500,000	500,000	500,795	795
8110 Transfer out	(25,000)	(25,000)	(25,000)	-
5130 Sale of surplus property	50	50	-	(50)
Total other financing sources	475,050	475,050	475,795	745
Net Change in Fund Balances	(295,124)	(295,124)	310,211	605,335
Fund Balance - Beginning	1,545,803	1,545,803	1,545,803	-
Fund Balance - Ending	\$ 1,250,679	\$ 1,250,679	\$ 1,856,014	\$ 605,335

Groton Area School District 06-6
 Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund
 Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 1,603,500	\$ 1,603,500	\$ 1,714,733	\$ 111,233
1120 Prior year's ad valorem taxes	2,300	2,300	37,401	35,101
1130 Tax deed revenue	-	-	555	555
1190 Penalties and interest on taxes	1,400	1,400	2,765	1,365
4000 Revenue from federal sources				
4900 Other federal revenue	19,518	19,518	8,322	(11,196)
Total revenues	<u>1,626,718</u>	<u>1,626,718</u>	<u>1,763,776</u>	<u>137,058</u>
Expenditures				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	25,625	25,625	152,546	(126,921)
1120 Junior high/middle school	14,800	14,800	34,895	(20,095)
1130 High school	43,900	43,900	73,678	(29,778)
1140 Preschool services	1,800	1,800	1,608	192
1190 Other regular programs	7,000	7,000	-	7,000
1200 Special programs:				
1210 Gifted and Talented	1,500	1,500	-	1,500
1220 Programs for special education	2,100	2,170	1,732	438
1230 At-risk youth	2,150	2,150	-	2,150
1250 Culturally different	400	400	-	400
2000 Support services				
2100 Pupils:				
2120 Guidance	325	325	313	12
2130 Health	1,750	1,750	1,708	42
2150 Speech pathology	200	200	185	15
2200 Support services - instructional staff:				
2220 Educational media	168,150	168,150	39,871	128,279
2300 Support services - general administration:				
2320 Executive administration	375	375	295	80
2400 Support services - school administration:				
2410 Office of the principal	1,600	1,600	257	1,343
2500 Support services - business:				
2530 Facilities acquisition and construction	53,600	53,600	101,197	(47,597)
2540 Operation and maintenance of plant	30,300	30,300	29,931	369
2550 Pupil transportation	84,000	84,000	53,203	30,797
5000 Debt services	806,050	816,980	795,485	21,495
6000 Co-curricular activities				
6900 Combined activities	34,775	36,325	30,817	5,508
Total expenditures	<u>1,280,400</u>	<u>1,292,950</u>	<u>1,317,721</u>	<u>(24,771)</u>

Groton Area School District 06-6
 Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund
 Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Excess of Revenue over Expenditures	346,318	333,768	446,055	112,287
Other Financing Sources (Uses)				
5510 Transfer in	1,100,000	1,100,000	1,018,832	(81,168)
8110 Transfers out	(500,000)	(500,000)	(500,000)	-
5120 General long-term debt issued	-	-	107,829	(107,829)
Total other financing sources	600,000	600,000	626,661	(188,997)
Net Change in Fund Balances	946,318	933,768	1,072,716	(76,710)
Fund Balance - Beginning	432,372	432,372	432,372	-
Fund Balance - Ending	<u>\$ 1,378,690</u>	<u>\$ 1,366,140</u>	<u>\$ 1,505,088</u>	<u>\$ (76,710)</u>

Groton Area School District 06-6
 Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund
 Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 902,300	\$ 902,300	\$ 968,389	\$ 66,089
1120 Prior year's ad valorem taxes	1,600	1,600	22,849	21,249
1130 Tax deed revenue	-	-	294	294
1190 Penalties and interest on taxes	950	950	1,686	736
1970 Charges for services	10,800	10,800	10,539	(261)
1990 Other	-	-	143	143
3000 Revenue from state sources				
3900 Other state revenue	5,160	5,160	5,272	112
Total revenues	<u>920,810</u>	<u>920,810</u>	<u>1,009,172</u>	<u>88,362</u>
Expenditures				
1000 Instruction				
1200 Special programs:				
1220 Programs for special education	702,679	702,679	657,367	45,312
2000 Support services				
2100 Pupils:				
2130 Health	1,500	1,500	-	1,500
2140 Psychological	13,012	13,012	13,011	1
2150 Speech pathology	34,420	34,420	33,955	465
2170 Student therapy services	100,000	100,000	76,646	23,354
2300 Support services - general administration:				
2310 Board of education	400	400	115	285
2700 Support services - special education:				
2710 Administrative costs	16,480	16,480	19,781	(3,301)
2730 Transportation costs	10,801	10,801	7,465	3,336
2740 Other health impairments	7,632	10,582	10,598	(16)
2750 Other special education costs	5,683	5,683	-	5,683
Total expenditures	<u>892,607</u>	<u>895,557</u>	<u>818,938</u>	<u>76,619</u>
Excess of Revenue over (under) Expenditures	<u>28,203</u>	<u>25,253</u>	<u>190,234</u>	<u>164,981</u>
Net Change in Fund Balances	28,203	25,253	190,234	164,981
Fund Balance - Beginning	<u>(22,880)</u>	<u>(22,880)</u>	<u>(22,880)</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 5,323</u>	<u>\$ 2,373</u>	<u>\$ 167,354</u>	<u>\$ 164,981</u>

Groton Area School District 06-6
 Budgetary Comparison Schedule – Budgetary Basis – Pension Fund
 Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1120 Prior year's ad valorem taxes	\$ 25	\$ 25	\$ 635	\$ 610
1190 Penalties and interest on taxes	10	10	160	150
Total revenues	<u>35</u>	<u>35</u>	<u>795</u>	<u>760</u>
Other Financing Sources				
8110 Transfers out	<u>(100)</u>	<u>(100)</u>	<u>(795)</u>	<u>(695)</u>
Total other financing sources	<u>(100)</u>	<u>(100)</u>	<u>(795)</u>	<u>(695)</u>
Net Change in Fund Balances	(65)	(65)	-	65
Fund Balance - Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - Ending	<u><u>\$ (65)</u></u>	<u><u>\$ (65)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 65</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

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 at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in Number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total School District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
10. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and special revenue funds of the School District only.

Groton Area School District 06-6
Schedule of Employer's Share of Net Pension Liability (Asset)
Year Ended June 30, 2019

Pension Plan	Fiscal Year Ending	Employer's Percentage of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2019	0.1685351%	\$ (3,931)	\$ 3,503,675	-0.1%	100.02%
SDRS	6/30/2018	0.1702116%	(15,447)	3,458,565	-0.4%	100.1%
SDRS	6/30/2017	0.1711098%	577,992	3,253,709	17.8%	96.89%
SDRS	6/30/2016	0.1706572%	(723,806)	3,115,729	-23.2%	104.1%
SDRS	6/30/2015	0.1739782%	(1,253,441)	3,042,404	-41.2%	107.3%

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

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 year.

Groton Area School District 06-6
 Schedule of Employer's Contributions
 Year Ended June 30, 2019

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered Payroll (d)</u>	<u>Contributions as a Percentage of Covered Payroll (b/d)</u>
SDRS	6/30/2019	\$ 208,416	\$ 208,416	\$ -	\$ 3,473,589	6.0%
SDRS	6/30/2018	210,221	210,221	-	3,503,675	6.0%
SDRS	6/30/2017	207,498	207,498	-	3,458,565	6.0%
SDRS	6/30/2016	195,222	195,222	-	3,253,709	6.0%
SDRS	6/30/2015	186,943	186,943	-	3,115,729	6.0%

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

Changes in Benefit Terms

No significant changes.

Changes of Assumptions

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2017, and exists again this year as of June 30, 2018. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.89% as of June 30, 2017, and is 2.03% as of June 30, 2018.



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*

To the School Board
Groton Area School District 06-6
Groton, 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 Groton Area School District 06-6 (the School District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District’s basic financial statements, and have issued our report thereon dated February 4, 2020.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings as 2019-001 to be a material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as 2019-002 to be a significant deficiency.

Compliance and Other Matters

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

School District's Response to Findings

The School District's responses 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 School District'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 School District'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 black ink that reads "Eric Bailly LLP". The signature is written in a cursive style.

Aberdeen, South Dakota
February 4, 2020

Current Audit Findings and Recommendations

Finding 2019-001 Preparation of Financial Statements and Footnotes, and Material Proposed Adjustments to the Financial Statements

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

Condition: Groton Area School District 06-6 requested the external auditors to assist in the preparation of the financial statements and related footnotes for the year ended June 30, 2019. As part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the School District's existing internal controls and, therefore, could result in a material misstatement of the School District's financial statements.

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

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

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

Views of Responsible Officials: Management agrees with the finding.

Finding 2019-002 Lack of Maintenance and Accuracy of Food Service Inventory Listing

Criteria: The School District's internal control structure should be designed to provide for the proper maintenance and updating of inventory listings.

Condition: During the course of our audit, it was discovered that the inventory listing for the Food Service Fund was not properly maintained and updated during the fiscal year for inventory counts performed and costs included on the listing were not accurate.

Cause: The School District does not have proper controls in place for the maintaining and updating of the inventory listing for the Food Service Fund.

Effect: The value of the Food Service inventory and related purchases are recorded incorrectly.

Recommendation: The School District should implement controls to ensure that the Food Service inventory listing is properly maintained and updated during the year to ensure that the amount and cost of products are accurate. An inventory count should be completed at year-end to verify all food and supplies are on hand.

Views of Responsible Officials: Management agrees with the finding.