



Financial Statements  
June 30, 2020

# 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, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2020, 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.

### **Change in Accounting Principle**

As discussed in Notes 1 and 13 to the financial statements, the School District has adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which has resulted in a restatement of the net position as of July 1, 2019. Our opinions are not modified with respect to this matter.

### **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 42 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 require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2021, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota  
March 3, 2021

## Groton Area School District 06-6

Statement of Net Position

June 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 3,834,770	\$ 51,718	\$ 3,886,488
Taxes receivable	2,743,664	-	2,743,664
Accounts receivable	710,289	7,179	717,468
Inventories	-	18,160	18,160
Net pension asset	16,868	445	17,313
Capital assets:			
Land, improvements and construction in progress	103,596	-	103,596
Other capital assets, net of depreciation	11,121,263	9,076	11,130,339
<b>Total assets</b>	<b>18,530,450</b>	<b>86,578</b>	<b>18,617,028</b>
<b>Deferred Outflows of Resources</b>			
Pension related deferred outflows	873,890	26,250	900,140
	<b>\$ 19,404,340</b>	<b>\$ 112,828</b>	<b>\$ 19,517,168</b>
<b>Liabilities</b>			
Accounts payable	\$ 58,238	\$ -	\$ 58,238
Other current liabilities	422,601	-	422,601
Unearned revenue	-	22,596	22,596
Noncurrent liabilities:			
Due within one year	855,904	-	855,904
Due in more than one year	6,937,610	-	6,937,610
<b>Total liabilities</b>	<b>8,274,353</b>	<b>22,596</b>	<b>8,296,949</b>
<b>Deferred Inflows of Resources</b>			
Pension related deferred inflows	343,232	9,655	352,887
Taxes levied for future period	2,930,500	-	2,930,500
<b>Total deferred inflows of resources</b>	<b>3,273,732</b>	<b>9,655</b>	<b>3,283,387</b>
<b>Net Position</b>			
Net investment in capital assets	3,604,917	9,076	3,613,993
Restricted for:			
Capital Outlay	1,401,040	-	1,401,040
Special Education	250,584	-	250,584
SDRS pension benefits	547,526	17,040	564,566
Debt service	152,047	-	152,047
Unrestricted	1,900,141	54,461	1,954,602
<b>Total net position</b>	<b>7,856,255</b>	<b>80,577</b>	<b>7,936,832</b>
	<b>\$ 19,404,340</b>	<b>\$ 112,828</b>	<b>\$ 19,517,168</b>

See Notes to Financial Statements

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Groton Area School District 06-6  
Statement of Activities  
Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government						
Governmental activities:						
Instruction	\$ 4,053,194	\$ 17,237	\$ 176,599	\$ (3,859,358)	\$ -	\$ (3,859,358)
Support services	2,724,205	720	-	(2,723,485)	-	(2,723,485)
Community services	5,721	-	-	(5,721)	-	(5,721)
*Interest on long-term debt	167,370	-	-	(167,370)	-	(167,370)
Co-curricular activities	339,613	155,694	-	(183,919)	-	(183,919)
Total governmental activities	<u>7,290,103</u>	<u>173,651</u>	<u>176,599</u>	<u>(6,939,853)</u>	<u>-</u>	<u>(6,939,853)</u>
Business-type activities:						
Food service	242,928	120,369	95,683	-	(26,876)	(26,876)
After school program	76,887	42,915	17,990	-	(15,982)	(15,982)
Driver's education	2,873	9,600	-	-	6,727	6,727
Total business-type activities	<u>322,688</u>	<u>172,884</u>	<u>113,673</u>	<u>-</u>	<u>(36,131)</u>	<u>(36,131)</u>
Total primary government	<u>\$ 7,612,791</u>	<u>\$ 346,535</u>	<u>\$ 290,272</u>	<u>(6,939,853)</u>	<u>(36,131)</u>	<u>(6,975,984)</u>
General Revenues						
Taxes:						
Property taxes				5,879,966	-	5,879,966
Gross receipts tax				709,947	-	709,947
Revenue from state sources:						
State aid				285,441	-	285,441
Other				6,949	-	6,949
Revenue from federal sources				15,109	-	15,109
Grants and contributions not restricted to specific programs				3,554	-	3,554
Unrestricted investment earnings				13,625	-	13,625
Other general revenues				61,076	-	61,076
Total general revenues				<u>6,975,667</u>	<u>-</u>	<u>6,975,667</u>
Transfers				(20,000)	20,000	-
Change in Net Position				<u>15,814</u>	<u>(16,131)</u>	<u>(317)</u>
Net Position - Beginning				7,715,517	96,708	7,812,225
Restatement - See Note 13				124,924	-	124,924
Net Position - Beginning, As Restated				<u>7,840,441</u>	<u>96,708</u>	<u>7,937,149</u>
Net Position - Ending				<u>\$ 7,856,255</u>	<u>\$ 80,577</u>	<u>\$ 7,936,832</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, 2020

	General Fund	Capital Outlay Fund	Special Education Fund	Bond Redemption Fund	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 1,826,183	\$ 1,494,432	\$ 356,337	\$ 157,818	\$ 3,834,770
110 Taxes receivable - current	1,411,699	781,448	413,675	97,560	2,704,382
112 Taxes receivable - delinquent	21,808	10,313	5,656	1,505	39,282
140 Due from local governments	546,716	-	-	-	546,716
140 Due from state government	163,573	-	-	-	163,573
	<u>\$ 3,969,979</u>	<u>\$ 2,286,193</u>	<u>\$ 775,668</u>	<u>\$ 256,883</u>	<u>\$ 7,288,723</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>					
<b>Liabilities</b>					
402 Accounts payable	\$ 20,916	\$ 35,153	\$ 1,719	\$ 450	\$ 58,238
404 Contracts payable	243,152	-	51,179	-	294,331
450 Payroll deductions and withholdings and employer matching payable	106,084	-	22,186	-	128,270
Total liabilities	<u>370,152</u>	<u>35,153</u>	<u>75,084</u>	<u>450</u>	<u>480,839</u>
<b>Deferred Inflows of Resources</b>					
553 Taxes levied for future period	1,526,114	850,000	450,000	104,386	2,930,500
551 Unavailable revenue - delinquent property taxes	21,808	10,313	5,656	1,505	39,282
Total deferred inflows of resources	<u>1,547,922</u>	<u>860,313</u>	<u>455,656</u>	<u>105,891</u>	<u>2,969,782</u>
<b>Fund Balances</b>					
<b>Restricted:</b>					
Capital outlay	-	1,390,727	-	-	1,390,727
Special education	-	-	244,928	-	244,928
Bond redemption	-	-	-	150,542	150,542
<b>Assigned:</b>					
Other purposes	137,381	-	-	-	137,381
Unemployment	32,052	-	-	-	32,052
Unassigned	1,882,472	-	-	-	1,882,472
Total fund balances	<u>2,051,905</u>	<u>1,390,727</u>	<u>244,928</u>	<u>150,542</u>	<u>3,838,102</u>
	<u>\$ 3,969,979</u>	<u>\$ 2,286,193</u>	<u>\$ 775,668</u>	<u>\$ 256,883</u>	<u>\$ 7,288,723</u>

See Notes to Financial Statements



Groton Area School District 06-6

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2020

Total Fund Balances - Governmental Funds	\$ 3,838,102
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.	11,224,859
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.	(7,570,204)
Unamortized balance of premiums and discounts are not due and payable in the current period and, therefore, are not reported in the funds.	(223,310)
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.	39,282
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>547,526</u>
Net Position - Governmental Funds	<u><u>\$ 7,856,255</u></u>

Groton Area School District 06-6  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2020

	General Fund	Capital Outlay Fund	Special Education Fund	Bond Redemption Fund	Total Governmental Funds
<b>Revenues</b>					
1000 Revenue from local sources					
1100 Taxes:					
1110 Ad valorem taxes	\$ 3,045,601	\$ 1,686,194	\$ 892,582	\$ 206,475	\$ 5,830,852
1120 Prior year's ad valorem taxes	12,525	6,159	3,421	945	23,050
1140 Gross receipt taxes	709,947	-	-	-	709,947
1190 Penalties and interest on taxes	5,817	2,125	1,152	296	9,390
1300 Tuition and fees:					
1360 Regular day school transportation fees	720	-	-	-	720
1500 Earnings on investments and deposits	13,625	-	-	-	13,625
1700 Co-curricular activities:					
1710 Admissions	42,185	-	-	-	42,185
1740 Rentals	2,290	-	-	-	2,290
1790 Other pupil activity income	111,219	-	-	-	111,219
1900 Other revenue from local sources:					
1920 Contributions and donations	3,554	-	-	-	3,554
1970 Charges for services	6,009	-	11,228	-	17,237
1990 Other	24,105	-	56	-	24,161
2000 Revenue from intermediate sources					
2100 County sources:					
2110 County apportionment	31,798	-	-	-	31,798
2200 Revenue in lieu of taxes	692	167	88	-	947
3000 Revenue from state sources					
3100 Grants-in-aid:					
3110 Unrestricted grants-in-aid	285,441	-	-	-	285,441
3120 Restricted grants-in-aid	14,934	-	-	-	14,934
3900 Other state revenue	575	-	6,374	-	6,949
4000 Revenue from federal sources					
4100 Grants-in-aid:					
4130 Unrestricted grants-in-aid received from federal government through an intermediate source	12,258	-	-	-	12,258
4140 Restricted grants-in-aid received directly from federal government	22,072	-	-	-	22,072
4150-4199 Restricted grants-in-aid received from federal government through the state	118,255	9,080	-	-	127,335
4900 Other federal revenue	841	14,268	-	-	15,109
Total revenues	<u>4,464,463</u>	<u>1,717,993</u>	<u>914,901</u>	<u>207,716</u>	<u>7,305,073</u>

Groton Area School District 06-6  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2020

	General Fund	Capital Outlay Fund	Special Education Fund	Bond Redemption Fund	Total Governmental Funds
Expenditures					
1000 Instruction					
1100 Regular programs:					
1110 Elementary	1,031,066	104,882	-	-	1,135,948
1120 Middle school/junior high	511,432	35,594	-	-	547,026
1130 High school	902,026	117,739	-	-	1,019,765
1140 Preschool services	30,428	291	-	-	30,719
1200 Special programs:					
1210 Gifted and talented	3,416	-	-	-	3,416
1220 Programs for special education	-	5,683	670,952	-	676,635
1230 At-risk youth	49,320	-	-	-	49,320
1250 Culturally different	3,751	97	-	-	3,848
1270 Educationally deprived	115,051	9,080	-	-	124,131
2000 Support services					
2100 Pupils:					
2120 Guidance	65,865	-	-	-	65,865
2130 Health	42,314	2,649	-	-	44,963
2140 Psychological	-	-	14,166	-	14,166
2150 Speech pathology	-	519	36,482	-	37,001
2170 Student therapy services	-	-	79,412	-	79,412
2200 Support services - instructional staff:					
2210 Improvement of instruction	23,232	-	-	-	23,232
2220 Educational media	119,097	130,992	-	-	250,089
2300 Support services - general administration:					
2310 Board of Education	130,898	-	117	-	131,015
2320 Executive administration	136,862	380	-	-	137,242
2400 Support services - school administration:					
2410 Office of the Principal	290,576	78	-	-	290,654
2490 Other	650	-	-	-	650
2500 Support services - business:					
2520 Fiscal services	177,160	5,875	-	-	183,035
2530 Facilities acquisition and construction	-	42,190	-	-	42,190
2540 Operation and maintenance of plant	664,860	24,800	-	-	689,660
2550 Pupil transportation	304,917	160	-	-	305,077
2700 Support services - special education:					
2710 Administrative costs	-	-	21,305	-	21,305
2730 Transportation costs	-	-	5,867	-	5,867
2740 Other health impairments	-	-	9,026	-	9,026
4000 Nonprogrammed charges					
4500 Early retirement payments	16,378	-	-	-	16,378
5000 Debt services	-	798,691	-	211,070	1,009,761
6000 Co-curricular activities					
6900 Combined activities	258,367	20,170	-	-	278,537
7500 Capital outlay	-	89,184	-	-	89,184
Total expenditures	<u>4,877,666</u>	<u>1,389,054</u>	<u>837,327</u>	<u>211,070</u>	<u>7,315,117</u>
Excess of Revenue over (under) Expenditures	<u>(413,203)</u>	<u>328,939</u>	<u>77,574</u>	<u>(3,354)</u>	<u>(10,044)</u>

Groton Area School District 06-6  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2020

	General Fund	Capital Outlay Fund	Special Education Fund	Bond Redemption Fund	Total Governmental Funds
Other Financing Sources					
5510 Transfers in	500,000	-	-	-	500,000
8110 Transfer out	(20,000)	(500,000)	-	-	(520,000)
5120 General long-term debt issued	-	56,700	-	-	56,700
5130 Sale of surplus property	4,170	-	-	-	4,170
Total other financing sources	<u>484,170</u>	<u>(443,300)</u>	<u>-</u>	<u>-</u>	<u>40,870</u>
Net Change in Fund Balances	<u>70,967</u>	<u>(114,361)</u>	<u>77,574</u>	<u>(3,354)</u>	<u>30,826</u>
Fund Balance - Beginning	1,856,014	1,505,088	167,354	153,896	3,682,352
Restatement - See Note 13	<u>124,924</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,924</u>
Fund Balance -Beginning, As Restated	<u>1,980,938</u>	<u>1,505,088</u>	<u>167,354</u>	<u>153,896</u>	<u>3,807,276</u>
Fund Balance - Ending	<u>\$ 2,051,905</u>	<u>\$ 1,390,727</u>	<u>\$ 244,928</u>	<u>\$ 150,542</u>	<u>\$ 3,838,102</u>

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, 2020

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Net Change in Fund Balances - Total Governmental Funds	\$	30,826
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 (\$89,184) was exceeded by depreciation (\$427,227) in the current period.		(338,043)
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."		16,674
The issuance of long-term debt is another financing source in the fund statements, but is an increase in long-term liabilities on the government-wide statements.		(56,700)
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 \$0, payments of early retirement were \$15,000.		15,000
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.		830,212
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>(495,712)</u>
Change in Net Position of Governmental Activities	\$	<u><u>15,814</u></u>

Groton Area School District 06-6  
Statement of Net Position – Proprietary Funds  
June 30, 2020

	Enterprise Funds		
	Food Service Fund	Other	Total
<b>Assets</b>			
<b>Current Assets</b>			
101 Cash and cash equivalents	\$ 32,051	\$ 19,667	\$ 51,718
120 Accounts receivable	4,524	2,655	7,179
170 Inventory of supplies	2,768	-	2,768
171 Inventory of stores purchased for resale	6,715	-	6,715
172 Inventory of donated food	8,677	-	8,677
Total current assets	<u>54,735</u>	<u>22,322</u>	<u>77,057</u>
<b>Noncurrent Assets</b>			
196 Net pension asset	321	124	445
200 Capital assets:			
204 Machinery and equipment - local funds	124,941	-	124,941
Less accumulated depreciation	(115,865)	-	(115,865)
Total noncurrent assets	<u>9,397</u>	<u>124</u>	<u>9,521</u>
<b>Deferred Outflows of Resources</b>			
252 Pension related deferred outflows	19,119	7,131	26,250
Total assets and deferred outflows of resources	<u>\$ 83,251</u>	<u>\$ 29,577</u>	<u>\$ 112,828</u>
<b>Liabilities, Deferred Inflows, and Net Position</b>			
<b>Current Liabilities</b>			
474 Unearned revenue	\$ 19,473	\$ 3,123	\$ 22,596
Total current liabilities	<u>19,473</u>	<u>3,123</u>	<u>22,596</u>
<b>Deferred Inflows of Resources</b>			
554 Pension related deferred inflows	6,589	3,066	9,655
<b>Net Position</b>			
706 Net investment in capital assets	9,076	-	9,076
707.2 SDRS pension benefits	12,851	4,189	17,040
708 Unrestricted net position	35,262	19,199	54,461
Total net position	<u>57,189</u>	<u>23,388</u>	<u>80,577</u>
Total liabilities, deferred inflows, and net position	<u>\$ 83,251</u>	<u>\$ 29,577</u>	<u>\$ 112,828</u>

Groton Area School District 06-6  
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds  
Year Ended June 30, 2020

	Enterprise Funds		
	Food Service Fund	Other	Total
Operating Revenue			
Tuition and fees			
1310 Student tuition	\$ -	\$ 9,600	\$ 9,600
1980 Parent tuition	-	42,915	42,915
Sales			
1610 To pupils	114,186	-	114,186
1620 To adults	1,627	-	1,627
1660 Other	4,556	-	4,556
Total operating revenue	<u>120,369</u>	<u>52,515</u>	<u>172,884</u>
Operating Expenses			
100 Salaries	80,216	44,822	125,038
200 Employee benefits	39,390	18,247	57,637
300 Purchased services	7,534	2,873	10,407
400 Supplies	9,027	13,818	22,845
461 Cost of sales - purchased food	89,757	-	89,757
462 Cost of sales - donated food	13,631	-	13,631
910 Depreciation - local funds	3,373	-	3,373
Total operating expenses	<u>242,928</u>	<u>79,760</u>	<u>322,688</u>
Operating Loss	<u>(122,559)</u>	<u>(27,245)</u>	<u>(149,804)</u>
Nonoperating Revenue			
Other local revenue			
1920 Contributions and donations	-	17,990	17,990
State sources			
3810 Cash reimbursements	780	-	780
Federal sources			
4810 Cash reimbursements	79,198	-	79,198
4820 Donated food	15,705	-	15,705
Total nonoperating revenue	<u>95,683</u>	<u>17,990</u>	<u>113,673</u>
Loss Before Transfers	<u>(26,876)</u>	<u>(9,255)</u>	<u>(36,131)</u>
Transfers In	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Change in Net Position	(6,876)	(9,255)	(16,131)
Net Position - Beginning	<u>64,065</u>	<u>32,643</u>	<u>96,708</u>
Net Position - Ending	<u>\$ 57,189</u>	<u>\$ 23,388</u>	<u>\$ 80,577</u>

Groton Area School District 06-6  
Statement of Cash Flows – Proprietary Funds  
Year Ended June 30, 2020

	Enterprise Funds		
	Food Service Fund	Other	Total
Cash Flows provided from (used for) Operating Activities			
Receipts from customers	\$ 124,555	\$ 57,382	\$ 181,937
Payments to suppliers	(109,316)	(16,691)	(126,007)
Payments to employees	(111,268)	(58,645)	(169,913)
Net Cash used for Operating Activities	<u>(96,029)</u>	<u>(17,954)</u>	<u>(113,983)</u>
Cash Flows from Noncapital Financing Activities			
Contributions and donations	-	17,990	17,990
Transfers in	20,000	-	20,000
Operating subsidies	79,978	-	79,978
Net Cash from Noncapital Financing Activities	<u>99,978</u>	<u>17,990</u>	<u>117,968</u>
Net Change in Cash and Cash Equivalents	3,949	36	3,985
Cash and Cash Equivalents, Beginning of Year	<u>28,102</u>	<u>19,631</u>	<u>47,733</u>
Cash and Cash Equivalents, End of Year	<u>\$ 32,051</u>	<u>\$ 19,667</u>	<u>\$ 51,718</u>
Reconciliation of Operating Loss to Net Cash from (used for) Operating Activities:			
Operating loss	\$ (122,559)	\$ (27,245)	\$ (149,804)
Adjustments to reconcile operating loss to net cash from (used for) operating activities:			
Depreciation expense	3,373	-	3,373
Non-cash inventory costs	13,631	-	13,631
Change in assets and liabilities:			
Accounts receivable	(4,524)	4,269	(255)
Inventories	(2,998)	-	(2,998)
Pension liability, asset, deferred inflows and deferred outflows	8,338	4,424	12,762
Unearned revenue	8,710	598	9,308
Net Cash used for Operating Activities	<u>\$ (96,029)</u>	<u>\$ (17,954)</u>	<u>\$ (113,983)</u>
Noncash Investing, Capital and Financing Activities			
Value of commodities received	\$ 15,705	\$ -	\$ 15,705



Groton Area School District 06-6  
 Statements of Fiduciary Net Position  
 June 30, 2020

	Private Purpose Trust Fund	Custodial Fund
Assets		
Cash	\$ -	\$ 161,089
Investments	98,444	-
	\$ 98,444	\$ 161,089
Liabilities		
Amounts held for others	\$ -	\$ -
Total liabilities	-	-
Net Position		
Net position held for organizations, clubs and classes	-	161,089
Net position held in trust for scholarships	98,444	-
Total net position	98,444	161,089
	\$ 98,444	\$ 161,089

Groton Area School District 06-6  
Statement of Changes in Fiduciary Net Position  
June 30, 2020

	Private Purpose Trust Fund	Custodial Fund
Additions		
Contributions, donations and fundraisers	\$ -	\$ 217,708
Investment income	954	-
Total additions	<u>954</u>	<u>217,708</u>
Deductions		
Organization, club and class expenses	-	206,319
Scholarships	1,500	-
Investments fees	1,440	-
Total deductions	<u>2,940</u>	<u>206,319</u>
Change in Net Position	<u>(1,986)</u>	<u>11,389</u>
Net Position - Beginning	100,430	-
Restatement - See Note 13	<u>-</u>	<u>149,700</u>
Net Position - Beginning, As Restated	<u>100,430</u>	<u>149,700</u>
Net Position - Ending	<u><u>\$ 98,444</u></u>	<u><u>\$ 161,089</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 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. This fund was closed in 2020.

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.

### **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 for both driver’s education and the after school program. This is a major fund.

## **Fiduciary Funds**

Fiduciary Funds are never considered to be major funds.

**Custodial Fund Types** - Custodial funds are used to account for resources held by the School District in a purely custodial capacity. Since custodial funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains custodial 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 and grant receivables, which are accrued at June 30, 2020, are due from the state government for \$163,573 and the counties for \$546,716.

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.

**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 acquisition 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, 2020, balance of capital assets for governmental activities is valued at original cost. The total June 30, 2020, 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 is reported as net position held in trust for other purposes or held for other organizations, clubs or classes.

### **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

#### Revenue Source

Property taxes and grants  
Property taxes and grants

## 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 entered as whole numbers rather than with cents.

## Implementation of GASB Statement No. 84

As of July 1, 2019, the District adopted GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities, and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. The impact to the School District resulted in certain activities previously reported as fiduciary not being considered fiduciary under GASB 84. The effect of the implementation of this standard on beginning net position is disclosed in Note 13.

**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.

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. As of June 30, 2020, one financial institution that holds the School District’s deposits was not properly collateralized and deposits at that institution were exposed to custodial credit risk as follows:

Depository Name	Percent Under-Collateralized	At-Risk Amount
First State Bank of Groton	9.84%	\$ 376,668

The actual bank balances at June 30, 2020, were as follows:

	Bank Balance
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	3,827,931
	\$ 4,077,931
 The School District's carrying amount of deposits at June 30, 2020	 \$ 4,047,577
 Reconciliation of deposits to government-wide statement of net position:	
Cash and cash equivalents	\$ 3,886,488
Add: Fiduciary fund cash (not included in government-wide statement of net position)	161,089
	\$ 4,047,577

### 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, 2020.

**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, 2020, is as follows:

Primary Government Governmental Activities	Balance 7/1/2019	Increases	Decreases	Balance 6/30/2020
Capital assets not being depreciated:				
Land	\$ 103,596	\$ -	\$ -	\$ 103,596
Construction in progress	12,895	-	12,895	-
Total capital assets not being depreciated	<u>116,491</u>	<u>-</u>	<u>12,895</u>	<u>103,596</u>
Capital assets being depreciated:				
Buildings	14,896,283	12,895	-	14,909,178
Improvements other than buildings	1,063,258	89,184	-	1,152,442
Machinery and equipment	1,976,982	-	-	1,976,982
Total capital assets being depreciated	<u>17,936,523</u>	<u>102,079</u>	<u>-</u>	<u>18,038,602</u>
Less accumulated depreciation for:				
Buildings	4,229,508	278,211	-	4,507,719
Improvements other than buildings	749,004	61,161	-	810,165
Machinery and equipment	1,511,600	87,855	-	1,599,455
Total accumulated depreciation	<u>6,490,112</u>	<u>427,227</u> **	<u>-</u>	<u>6,917,339</u>
Total capital assets being depreciated, net	<u>11,446,411</u>	<u>(325,148)</u>	<u>-</u>	<u>11,121,263</u>
Governmental activity capital assets, net	<u>\$ 11,562,902</u>	<u>\$ (325,148)</u>	<u>\$ 12,895</u>	<u>\$ 11,224,859</u>

\*\* Depreciation expense was charged to functions as follows:

Governmental activities:			
Instruction			\$ 116,528
Support services			254,560
Community services			5,721
Co-curricular activities			<u>50,418</u>
Total depreciation expense - governmental activities			<u>\$ 427,227</u>

Proprietary Fund	Balance 7/1/2019	Increases	Decreases	Balance 6/30/2020
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	112,492	3,373	-	115,865
Total accumulated depreciation	<u>112,492</u>	<u>3,373</u>	<u>-</u>	<u>115,865</u>
Total capital assets being depreciated, net	<u>12,449</u>	<u>(3,373)</u>	<u>-</u>	<u>9,076</u>
Proprietary fund activities capital assets, net	<u>\$ 12,449</u>	<u>\$ (3,373)</u>	<u>\$ -</u>	<u>\$ 9,076</u>

\*\* Depreciation expense was charged to functions as follows:

Proprietary fund activities:			
Food services			<u>\$ 3,373</u>
Total depreciation expense - proprietary fund activities			<u>\$ 3,373</u>

**Note 4 - Long-Term Debt**

A summary of the changes in long-term debt for the year ended June 30, 2020, is as follows:

Governmental Activities	7/1/2019	Increase	Decrease	6/30/2020	Due In One Year
General obligation	\$ 8,055,000	\$ -	\$ (685,000)	\$ 7,370,000	\$ 700,000
Direct financing leases	63,891	56,700	(60,499)	60,092	41,201
SD SDBF assessment	155,790	-	(77,310)	78,480	78,480
Unamortized premium	236,867	-	(13,557)	223,310	13,557
	<u>\$ 8,511,548</u>	<u>\$ 56,700</u>	<u>\$ (836,366)</u>	<u>\$ 7,731,882</u>	<u>\$ 833,238</u>

Debt payable at June 30, 2020, 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.	\$ 205,000
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.	7,165,000

Other Long-Term Debt

Choice Financial, laptops, matures July 2021, 3.74% interest, annual payments of \$19,598, paid by the Capital Outlay Fund.	37,102
Choice Financial, laptops, matures August 2020, 3.63% interest, annual payments of \$23,824, paid by the Capital Outlay Fund.	22,990
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)	78,480
Plus unamortized premiums	<u>223,310</u>
	<u><u>\$ 7,731,882</u></u>

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, 2020, 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
2021	\$ 700,000	\$ 227,486	\$ 41,201	\$ 2,222	\$ 78,480	\$ 819,681	\$ 229,708
2022	510,000	215,950	18,891	707	-	528,891	216,657
2023	520,000	205,650	-	-	-	520,000	205,650
2024	320,000	196,450	-	-	-	320,000	196,450
2025	330,000	188,325	-	-	-	330,000	188,325
2026-2030	1,810,000	770,406	-	-	-	1,810,000	770,406
2031-2035	2,185,000	386,788	-	-	-	2,185,000	386,788
2036-2037	995,000	32,581	-	-	-	995,000	32,581
	<u>\$ 7,370,000</u>	<u>\$ 2,223,636</u>	<u>\$ 60,092</u>	<u>\$ 2,929</u>	<u>\$ 78,480</u>	<u>\$ 7,508,572</u>	<u>\$ 2,226,565</u>

#### Note 5 - Other Long-Term Liabilities

A summary of the changes in other long-term liabilities for the year ended June 30, 2020, is as follows:

Governmental Activities	7/1/2019	Increase	Decrease	6/30/2020	Due In One Year
Capital leases	\$ 34,035	\$ -	\$ (7,403)	\$ 26,632	\$ 7,666
Early retirement payable (See Note 6)	50,000	-	(15,000)	35,000	15,000
	<u>\$ 84,035</u>	<u>\$ -</u>	<u>\$ (22,403)</u>	<u>\$ 61,632</u>	<u>\$ 22,666</u>

Other long-term liabilities at June 30, 2020, 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.

\$ 26,632

#### Early Retirement

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

35,000

\$ 61,632

The annual required payments to maturity for all other long-term liabilities outstanding as of June 30, 2020, is as follows:

Year Ending June 30,	Capital Leases		Early Retirement	Total	
	Principal	Interest	Principal	Principal	Interest
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>\$ 26,632</u>	<u>\$ 1,622</u>	<u>\$ 35,000</u>	<u>\$ 61,632</u>	<u>\$ 1,622</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 2020 fiscal year, no 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, 2020, 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, 2020, 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 workers' 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 workers' compensation claims. The School District pays an annual premium, to provide workers' 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, 2020, 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	\$ 1,401,040
Special Education	Law	250,584
Debt Service	Law	152,047
SDRS Pension Benefits	Pension Plan	564,566
		\$ 2,368,237

**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, 2020, this joint venture had total fund equity of \$17,949 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, 2020, the North Central Special Education Cooperative had fund equity of \$291,596 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 <https://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

**Benefits Provided**

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

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

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater than or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater 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, 2020, 2019, and 2018, were \$ 206,826, \$208,416, and \$210,221, 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, 2019, SDRS is 100.09% 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, 2019, and reported by the School District as of June 30, 2020, are as follows:

Proportionate share of total pension liability	\$ 20,359,575
Less proportionate share of net position restricted for pension benefits	<u>20,376,888</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (17,313)</u></u>

At June 30, 2020, the School District reported a liability (asset) of (\$17,313) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2019, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the School District's proportion was 0.16337060%, which is a decrease of 0.0051645% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the School District recognized a reduction of pension expense of \$508,473. 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
Difference between expected and actual experience	\$ 67,911	\$ 7,836
Changes in assumption	597,939	245,126
Net difference between projected and actual earnings on pension plan investments	-	99,736
Changes in proportion and difference between School District contributions and proportionate share of contributions	27,464	189
School District contributions subsequent to the measurement date	<u>206,826</u>	<u>-</u>
	<u><u>\$ 900,140</u></u>	<u><u>\$ 352,887</u></u>



There is \$206,826 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:	Amount
2021	\$ 387,604
2022	(49,778)
2023	(33,199)
2024	35,800
	<u>\$ 340,427</u>

### Actuarial Assumptions

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

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

Mortality rates were based on 97% of the RP- 2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of 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, 2019 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	2.0%	0.9%
	<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)	\$ 2,873,588	\$ (17,313)	\$ (2,372,874)

### 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 2020, 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 General Fund transferred \$20,000 to the Food Service Fund to help cover costs on food service expenses.

**Note 13 - Adoption of New Standard**

As of July 1, 2019, the School District adopted GASB Statement No. 84, Fiduciary Activities (GASB 84). Certain agency funds previously accounted for under fiduciary activities are not longer considered fiduciary in nature and are now reported in the General Fund.

The District restated the net position and fund balance of the funds indicated below to appropriately reflect the July 1, 2019, balances as follows:

	Governmental Activities	General Fund	Custodial Fund
Net position at July 1, 2019, as previously reported	\$ 7,715,517	\$ 1,856,014	\$ -
Reclassification of student activity funds from agency funds to a custodial fund	-	-	149,700
Reclassification of student activity funds from agency funds to the general fund	124,924	124,924	-
Net position at July 1, 2019, as restated	\$ 7,840,441	\$ 1,980,938	\$ 149,700



Required Supplementary Information  
June 30, 2020

## Groton Area School District 06-6

Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – General Fund  
 Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 3,081,856	\$ 3,081,856	\$ 3,045,601	\$ (36,255)
1120 Prior year's ad valorem taxes	9,000	9,000	12,525	3,525
1140 Gross receipts taxes	730,000	730,000	709,947	(20,053)
1190 Penalties and interest on taxes	6,000	6,000	5,817	(183)
1300 Tuition and fees:				
1360 Regular day school transportation fees	700	700	720	20
1500 Earnings on investments and deposits	5,500	5,500	13,625	8,125
1700 Co-curricular activities:				
1710 Admissions	38,500	38,500	42,185	3,685
1740 Rentals	2,500	2,500	2,290	(210)
1790 Other pupil activity income	109,500	109,500	111,219	1,719
1900 Other revenue from local sources:				
1910 Rentals	1,200	1,200	-	(1,200)
1920 Contributions and donations	2,500	2,500	3,554	1,054
1970 Charges for services	6,500	6,500	6,009	(491)
1990 Other	17,000	17,000	24,105	7,105
2000 Revenue from intermediate sources				
2100 County sources:				
2110 County apportionment	37,500	37,500	31,798	(5,702)
2200 Revenue in lieu of taxes	100	100	692	592
3000 Revenue from state sources				
3100 Grants-in-aid:				
3110 Unrestricted grants-in-aid	282,000	282,000	285,441	3,441
3120 Restricted grants-in-aid	7,500	7,500	14,934	7,434
3900 Other state revenue	750	750	575	(175)
4000 Revenue from federal sources:				
4100 Grants-in-aid:				
4130 Unrestricted grants-in-aid received from federal government through an intermediate source	5,500	5,500	12,258	6,758
4140 Restricted grants-in-aid received directly from federal government	22,072	22,072	22,072	-
4150-4199 Restricted grants-in-aid received from federal government through the state	128,616	185,716	118,255	(67,461)
4900 Other federal revenue	-	-	841	841
<b>Total revenues</b>	<b>4,494,794</b>	<b>4,551,894</b>	<b>4,464,463</b>	<b>(87,431)</b>
<b>Expenditures</b>				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	1,078,289	1,099,232	1,031,066	68,166
1111 Middle school/junior high	527,002	527,002	511,432	15,570
1130 High school	981,612	981,877	902,026	79,851
1140 Preschool services	32,542	33,951	30,428	3,523
1190 Other regular programs	1,000	1,000	-	1,000

Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – General Fund  
 Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
1200 Special programs:				
1210 Gifted and talented	6,894	6,894	3,416	3,478
1230 At-risk youth	51,149	51,149	49,320	1,829
1250 Culturally different	6,008	6,008	3,751	2,257
1270 Educationally deprived	115,603	118,603	115,051	3,552
2000 Support services				
2100 Pupils:				
2120 Guidance	72,210	72,210	65,865	6,345
2130 Health	42,942	51,861	42,314	9,547
2200 Support services - instructional staff:				
2210 Improvement of instruction	44,798	34,861	23,232	11,629
2220 Educational media	132,036	138,964	119,097	19,867
2300 Support services - general administration:				
2310 Board of Education	143,801	143,801	130,898	12,903
2320 Executive administration	143,612	143,612	136,862	6,750
2400 Support services - school administration:				
2410 Office of the Principal	296,807	300,224	290,576	9,648
2490 Other	1,000	1,000	650	350
2500 Support services - business:				
2520 Fiscal services	183,937	183,937	177,160	6,777
2530 Facilities acquisition and construction	5,000	5,000	-	5,000
2540 Operation and maintenance of plant	740,727	743,182	664,860	78,322
2550 Pupil transportation	357,320	376,851	304,917	71,934
4000 Nonprogrammed charges				
4500 Early retirement payments	20,148	20,148	16,378	3,770
6000 Co-curricular activities				
6900 Combined activities	270,502	270,502	258,367	12,135
7000 Contingencies	50,000	49,825	-	49,825
Total expenditures	<u>5,304,939</u>	<u>5,361,694</u>	<u>4,877,666</u>	<u>484,028</u>
Excess of Revenue over (under) Expenditures	<u>(810,145)</u>	<u>(809,800)</u>	<u>(413,203)</u>	<u>396,597</u>
Other Financing Sources				
5510 Transfers in	500,000	500,000	500,000	-
8110 Transfer out	(25,000)	(25,000)	(20,000)	5,000
5130 Sale of surplus property	50	50	4,170	4,120
Total other financing sources	<u>475,050</u>	<u>475,050</u>	<u>484,170</u>	<u>9,120</u>
Net Change in Fund Balances	<u>(335,095)</u>	<u>(334,750)</u>	<u>70,967</u>	<u>405,717</u>
Fund Balance - Beginning	1,856,014	1,856,014	1,856,014	-
Restatement - See Note 13	-	-	124,924	124,924
Fund Balance - Beginning, As restated	<u>1,856,014</u>	<u>1,856,014</u>	<u>1,980,938</u>	<u>(124,924)</u>
Fund Balance - Ending	<u>\$ 1,520,919</u>	<u>\$ 1,521,264</u>	<u>\$ 2,051,905</u>	<u>\$ 280,793</u>

Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund  
 Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 1,703,500	\$ 1,703,500	\$ 1,686,194	\$ (17,306)
1120 Prior year's ad valorem taxes	2,300	2,300	6,159	3,859
1190 Penalties and interest on taxes	1,400	1,400	2,125	725
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	-	-	167	167
4000 Revenue from federal sources				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from federal government through the state	500	12,800	9,080	
4900 Other federal revenue	25,132	25,132	14,268	(10,864)
Total revenues	<u>1,732,832</u>	<u>1,745,132</u>	<u>1,717,993</u>	<u>(23,419)</u>
<b>Expenditures</b>				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	111,746	111,746	104,882	6,864
1120 Junior high/middle school	35,775	35,775	35,594	181
1130 High school	130,300	130,300	117,739	12,561
1140 Preschool services	900	900	291	609
1190 Other regular programs	4,000	4,000	-	4,000
1200 Special programs:				
1220 Programs for special education	6,700	6,700	5,683	1,017
1250 Culturally different	350	350	97	253
1270 Educationally deprived	-	9,350	9,080	270
2000 Support services				
2100 Pupils:				
2130 Health	1,962	4,462	2,649	1,813
2150 Speech pathology	550	550	519	31
2200 Support services - instructional staff:				
2220 Educational media	150,786	150,786	130,992	19,794
2300 Support services - general administration:				
2320 Executive administration	400	400	380	20
2400 Support services - school administration:				
2410 Office of the Principal	1,250	1,250	78	1,172
2500 Support services - business:				
2520 Fiscal services	6,400	6,400	5,875	525
2530 Facilities acquisition and construction	203,600	203,600	131,374	72,226
2540 Operation and maintenance of plant	27,700	27,700	24,800	2,900
2550 Pupil transportation	10,000	10,000	160	9,840
5000 Debt services	802,600	802,600	798,691	3,909
6000 Co-curricular activities				
6900 Combined activities	24,150	24,150	20,170	3,980
Total expenditures	<u>1,519,169</u>	<u>1,531,019</u>	<u>1,389,054</u>	<u>141,965</u>

Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund  
 Year Ended June 30, 2020

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	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Excess of Revenue over Expenditures	213,663	214,113	328,939	118,546
Other Financing Sources (Uses)				
8110 Transfers out	(500,000)	(500,000)	(500,000)	-
5120 General long-term debt issued	-	56,700	56,700	-
Total other financing sources	(500,000)	(443,300)	(443,300)	-
Net Change in Fund Balances	(286,337)	(229,187)	(114,361)	118,546
Fund Balance - Beginning	1,505,088	1,505,088	1,505,088	-
Fund Balance - Ending	<u>\$ 1,218,751</u>	<u>\$ 1,275,901</u>	<u>\$ 1,390,727</u>	<u>\$ 118,546</u>



Groton Area School District 06-6  
 Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund  
 Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 902,000	\$ 902,000	\$ 892,582	\$ (9,418)
1120 Prior year's ad valorem taxes	1,600	1,600	3,421	1,821
1190 Penalties and interest on taxes	950	950	1,152	202
1970 Charges for services	8,600	8,600	11,228	2,628
1990 Other	-	-	56	56
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	-	-	88	88
3000 Revenue from state sources				
3900 Other state revenue	(5,000)	(5,000)	6,374	11,374
<b>Total revenues</b>	<b>908,150</b>	<b>908,150</b>	<b>914,901</b>	<b>6,751</b>
<b>Expenditures</b>				
1000 Instruction				
1200 Special programs:				
1220 Programs for special education	728,147	728,147	670,952	57,195
2000 Support services				
2100 Pupils:				
2130 Health	2,000	2,000	-	2,000
2140 Psychological	14,166	14,166	14,166	-
2150 Speech pathology	36,759	36,759	36,482	277
2170 Student therapy services	104,000	104,000	79,412	24,588
2300 Support services - general administration:				
2310 Board of Education	400	400	117	283
2700 Support services - special education:				
2710 Administrative costs	22,958	22,958	21,305	1,653
2730 Transportation costs	10,439	10,439	5,867	4,572
2740 Other health impairments	6,590	9,540	9,026	514
<b>Total expenditures</b>	<b>925,459</b>	<b>928,409</b>	<b>837,327</b>	<b>91,082</b>
Excess of Revenue over Expenditures	(17,309)	(20,259)	77,574	97,833
Net Change in Fund Balances	(17,309)	(20,259)	77,574	97,833
Fund Balance - Beginning	167,354	167,354	167,354	-
Fund Balance - Ending	<u>\$ 150,045</u>	<u>\$ 147,095</u>	<u>\$ 244,928</u>	<u>\$ 97,833</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, 2020

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	6/30/2020	0.1633706%	\$ (17,313)	\$ 3,473,589	-0.5%	100.09%
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, 2020

<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	6/30/2020	\$ 206,826	\$ 206,826	-	\$ 3,447,096	6.0%
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, 2018, and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018, and is 1.88% as of June 30, 2019.

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

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



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

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, 2020, and the related notes to the financial statements, which collectively comprise the School District’s basic financial statements, and have issued our report thereon dated March 3, 2021.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying *schedule of findings* as item 2020-001 that we consider to be a material weakness.

**Compliance and Other Matters**

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

**School District's Response to Finding**

The School District's response to the finding identified in our audit is 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 cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota  
March 3, 2021

## Current Audit Findings and Recommendations

### **Finding 2020-001 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, 2020. 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.