



Financial Statements
June 30, 2018

Lemmon School District No. 52-4

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Lemmon School District No. 52-4
School District Officials (Unaudited)
June 30, 2018

School Board Chairman	Linda O'Donnell
School Board Vice-Chairman	Dennis Maier
School Board Members	Danni Beer Marion BlueArm Matt Barnes Melissa Reede Randy Miller
Superintendent	Craig Johnson (July 2017 – May 2018) Steve Bucks (May 2018 – Present)
Business Manager	Anita Stugelmeyer



Independent Auditor's Report

To the Members of the School Board
Lemmon School District No. 52-4
Perkins County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lemmon School District No. 52-4, Perkins County, South Dakota (the "School District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lemmon School District No. 52-4, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lemmon School District No. 52-4's financial statements. The school district officials listing is presented for purposes of additional analysis and is not a required part of the financial statements. The school district officials listing has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2019 on our consideration of Lemmon School District No. 52-4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lemmon School District No. 52-4'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 Lemmon School District No. 52-4's internal control over financial reporting and compliance.



Bismarck, North Dakota
May 15, 2019

This section of the Lemmon School District #52-4's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended on June 30, 2018. Please read it in conjunction with the School's financial statements, which follow this section.

Financial Highlights

- During the year, the School's revenues generated from taxes and other revenues of the governmental program was \$1,160,787 more than the \$3,208,472 in governmental expenditures.
- The total cost of the School's programs decreased by \$400,860 with the decrease spread over all areas of the budget. No one particular area of the budget represents a large portion of the decrease. District expenditures were held at a minimum when possible.
- The general fund reported a loss of \$107,625 for fiscal year 2018. The loss in the general fund is partially attributed to the buying out of the Superintendent contract in the amount of \$90,000 on May 1, 2018. This is also addressed later in the analysis. The district posted a gain in the fund balance for the general fund at the end of fiscal year 2017 in the amount of \$121,271. The property tax opt out of \$150,000 will need to be renewed in January 2019 for taxes payable in the 2019 – 2020 fiscal year.
- The School does not have any outstanding capital outlay certificates or bonds. In fiscal year 2019, the School District will be considering a bond issue for the renovation of the existing facilities and/or the construction of new facilities.
- The district also has an interest free loan to the State of South Dakota with an initial principal amount of \$130,850 payable over 10 years with the first payment in fiscal year 2015. This loan has a balance of \$78,510 with the final payment due in July 2024.
- The district posted in fiscal year 2017 a debt to South Dakota School District Benefit Fund of \$84,759 which will be paid in four payments beginning in October 2017. The balance at the end of fiscal year 2018 is \$64,050.
- A capital lease for the new activity bus in the amount of \$220,000 was posted in 2017. The balance on the lease is \$136,278 plus interest which will be paid in full in fiscal year 2019.

Overview of the Financial Statements

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

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

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

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

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

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

Government-wide Statements

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

The two government-wide statements report the School’s net position and how they have changed. Net position – the difference between the School’s assets and liabilities – is one way to measure the School’s financial health or position.

- Increases or decreases in the School’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional nonfinancial factors such as changes in the School’s property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the School report all activities of the district as Governmental Activities. This includes not only the School's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), capital equipment purchases but also the food service area. Property taxes, state grants, federal grants, interest earnings and charges for services finance most of these activities.

Fund Financial Statements

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

- State Law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes (i.e. Scholarship Trust)

The School has two kinds of funds:

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

Financial Analysis of the School District as a Whole

Net Position

The Lemmon School District's net position is as follows:

**Table A-1
Lemmon School
Statement of Net Position**

	Governmental Activities 2018	Governmental Activities 2017
Assets		
Current and Other Assets	\$ 4,677,777	\$ 3,873,810
Capital Assets	2,512,821	2,498,725
Total assets	7,190,598	6,372,535
Deferred Outflows of Resources	846,006	687,776
Long-Term Debt Outstanding	394,546	724,419
Other Liabilities	240,650	340,087
Total Liabilities	635,196	1,064,506
Deferred Inflows of Resources	1,499,483	1,254,667
Net Position		
Net investment in capital assets	2,298,033	2,228,991
Restricted	2,655,705	1,036,820
Unrestricted	948,187	1,475,327
Total Net Position	\$ 5,901,925	\$ 4,741,138

The net position of the School District increased \$1,160,787 for fiscal year 2018 from fiscal year 2017; the district also posted an increase in the net position of \$730,860 for fiscal year 2017. Of the increase in the net position for the 2018 fiscal year, \$816,770 is from a net change in the district fund balance for all funds. This increase is net of increase in fund balance, addition of capital assets, as well as consideration for long term debt and depreciation expense.

The total liabilities have decreased \$429,310 from the 2017 fiscal year. This decrease is largely due to the scheduled payments on the long-term debt as well as a decrease in the net pension liability.

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the school, consisting of compensated absences payable have been reported in this manner on the Statement of Net Position. The difference between the school’s assets and liabilities is the net assets.

Figure A-2 - Revenues

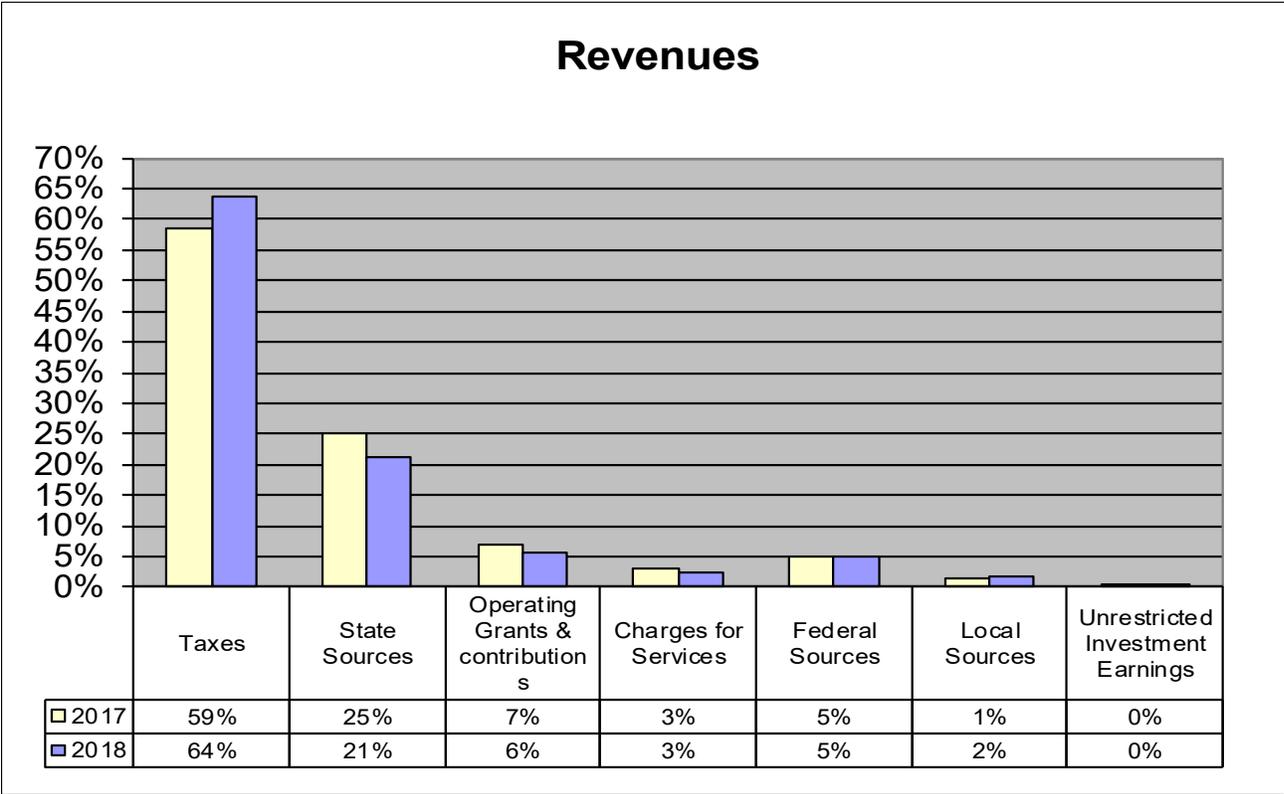
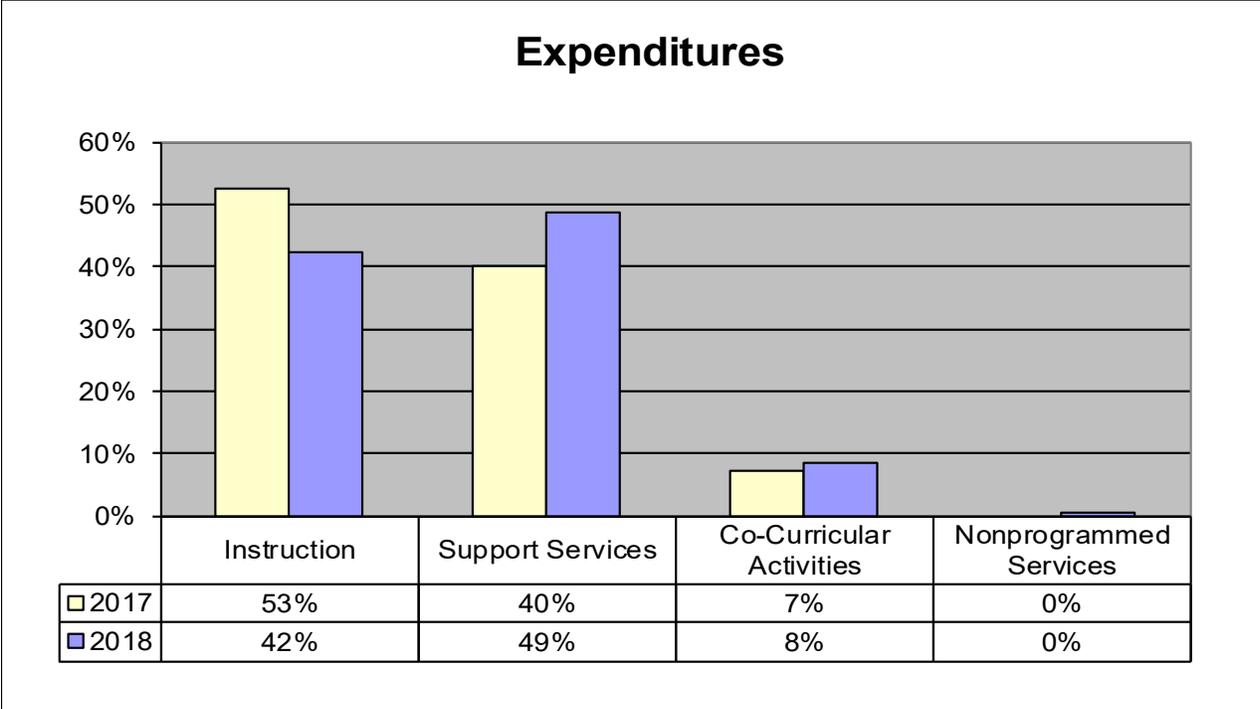


Figure A-3 – Expenditures



Governmental Activities

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

**Table A-2
Changes in Net Position**

	<u>Total Governmental Activities 2018</u>	<u>Total Governmental Activities 2017</u>
Revenues		
Program Revenues		
Charges for Services	\$ 110,262	\$ 129,622
Operating Grants and Contributions	251,165	294,846
General Revenues		
Taxes	2,777,079	2,532,632
Revenue State Sources	928,230	1,087,065
Revenue Federal Sources	216,921	210,831
Revenue Intermediate Sources	72,627	60,899
Unrestricted Investment Earnings	6,365	2,399
Total Revenues	<u>4,362,649</u>	<u>4,318,294</u>
Expenses		
Instruction	1,359,718	1,900,285
Support Services	1,565,787	1,449,380
Cocurricular Activities	269,196	259,536
Nonprogrammed Charges	13,771	131
Total Expenses	<u>3,208,472</u>	<u>3,609,332</u>
Total Revenues Over Expenses	1,154,177	708,962
Gain (loss) on disposal of capital assets, net of insurance recoveries	<u>6,610</u>	<u>21,898</u>
Increase in Net Position	<u>1,160,787</u>	<u>730,860</u>
Net Position, Beginning of Year	<u>4,741,138</u>	<u>4,010,278</u>
Net Position, End of Year	<u>\$ 5,901,925</u>	<u>\$ 4,741,138</u>

The Lemmon School District's total revenues (including special items) is \$4,362,649 for fiscal year ending June 30, 2018, which is an increase of \$44,355 from fiscal year 2017. This is primarily due to an increase in taxes and other local revenues. Revenue from state sources, operating grants and charges for services decreased slightly, while federal sources and investment earnings increased slightly.

The total cost of all programs and services was \$3,208,472 for fiscal year ending June 30, 2018, which is a decrease of \$400,860 from fiscal year 2017. The expenditures in instruction showed the largest decrease while there was a slight increase in support service expenditures.

Approximately 64% of the school district's revenue came from property taxes with approximately 21% from state sources. A shift in funding between the local and state revenues is dependent on the per pupil amount for state aid, any increase in property tax values and change in property tax levies as set by the state legislative bodies. For general fund, the per pupil state aid amount is a combination of property taxes and state funds. The district's enrollment has held steady the last couple of years however there was a slight drop in enrollment for fiscal year 2018.

Fiscal year 2018 shows a decrease in the state revenue which is partially due to the change in the funding formula as well as a slight increase in the local effort due to local tax evaluations. The federal funding slightly increased in fiscal year 2018. The district continues to use the Title I funding where possible.

(See Figure A-2)

Fiscal year 2018 shows a decrease in expenditures. (See Table A-2) The School's expenses cover a range of services, encompassing instruction, support services, capital outlay expenditures and food services. (See Figure A-3)

Financial Analysis of the School's Funds

The General Fund had a decrease of \$107,625 in the fund balance at the end of the year. The district continues to monitor the budget to stay abreast of the district financial status. If there is a need for a transfer to the General Fund in the future, the new state aid formula effective in fiscal year 2017 allows for a transfer from the Capital Outlay fund.

The Capital Outlay Fund showed an increase in the fund balance due to the increase in the tax revenues as well as holding the capital outlay expenditures to a minimum where possible.

The Special Education Fund reflects an increase in the fund balance due to lower special education costs. However, due to the special education fund balance, the district does not receive any state aid for special education

Budgetary Highlights

There were no significant budget changes or budget variances for the year in the General Fund.

Capital Asset Management (Note 3)

By the end of fiscal year 2018, the Lemmon School District had invested \$2,512,821 net of depreciation in a broad range of capital assets, including, land, buildings and various machinery and equipment. This is a net increase of \$14,096 over fiscal year 2017. (See Table A-3).

Table A-3
Lemmon School District 52-4 – Capital Assets
(Net of depreciation)

	Governmental Activities 2018	Governmental Activities 2017
Land	\$ 10,580	\$ 10,580
Improvements (net)	294,292	228,255
Buildings (net)	1,716,825	1,745,494
Machinery and equipment (net)	491,124	514,396
Total capital assets (net)	\$ 2,512,821	\$ 2,498,725

The small net increase in position is due to the addition of building improvements and other equipment, the disposal of equipment and the posting of the depreciation.

Long Term Debt (Note 4)

The long term debt of the Lemmon School District consists of the following:

- The district replaced the lights in the high school and the armory gym with an interest free loan in the amount of \$130,850 from the State of South Dakota. The loan for the lighting project must be paid back in 10 years. The district has made four payments with the balance due at the end of fiscal year 2018 of \$78,510.
- The district has a capital lease for the new activity bus which had a balance of \$136,278 plus interest at the end of the 2018 fiscal year. The lease will be paid in full in fiscal year 2019.
- The South Dakota School District Benefit Fund balance was \$64,050 at the end of the 2018 fiscal year. The district has elected to pay this in four payments beginning in October 2017.
- The remainder of the long term debt is compensated absences for which the district is liable for accrued sick leave and vacation leave payable for both the certified staff and support staff as per school district handbooks and the Negotiated Agreement.

Table A-4

	Governmental Activities		Change	Change
	2018	2017	2018-2017	2018-2017
Compensated absences	\$ 20,764	\$ 24,918	\$ (4,154)	-16.67%
Energy Loan	78,510	91,595	(13,085)	-14.29%
SD SDBF Assessment	64,050	84,759	(20,709)	-24.43%
Capital Lease	136,278	178,139	(41,861)	-23.50%
Total outstanding debt and obligations	\$ 299,602	\$ 379,411	\$ (79,809)	-21.03%

Economic Factors and Next Year's Budgets and Rates

The Lemmon School District's overall economic position continues to improve. The school district's property valuation has increased some, however, the maximum that can be levied is set during the State of South Dakota legislative session every year.

One of the primary sources of General Fund revenue to the school is based on the per student allocation received from the State of South Dakota. The South Dakota state aid formula changed and now includes a target average teacher salary, a student – teacher ratio as well as putting the Pension fund in the General Fund beginning with fiscal year 2017. Raising the teacher's salary was a large consideration in the new funding formula. All school districts are required to meet their accountability as defined by the South Dakota Department of Education.

In calculating the total need for fiscal year 2018, the SD Department of Education determined it to be \$1,639,704 of which \$822,263 will come in the form of state aid to education. The remainder the district will receive as tax revenue. With the change in the state aid formula fiscal year 2017, the other revenue which the district receives separately is included in the calculation of local effort in accordance to state statute.

The Revenue Chart (Figure A-2) on page 9 shows a small shift in the primary source of revenue to the property taxes received. The current General Fund state aid formula is a combination of property tax and state funding. What is not received in property tax is paid as general state aid to the district

The decrease in the fund balance for the General Fund is partially due to the buyout of the Superintendent's contract effective May 1, 2018. The total amount of the buyout was \$95,000 plus up to \$10,000 in medical insurance premium reimbursed. The \$95,000 included \$15,000 of the FY 2018 contract with the remainder a portion of the FY 2019 contract. With this change in administration, the Elementary Principal became the Interim Superintendent for the months of May 2018 and June 2018 with an additional salary of \$14,000 over the principal contract and the Business Manager received an additional \$6,000 over the current contract for the additional duties in assisting the Interim Superintendent. The Elementary Principal was hired as Superintendent for the fiscal year 2019. These additional expenses, however, were not anticipated when the budget was prepared.

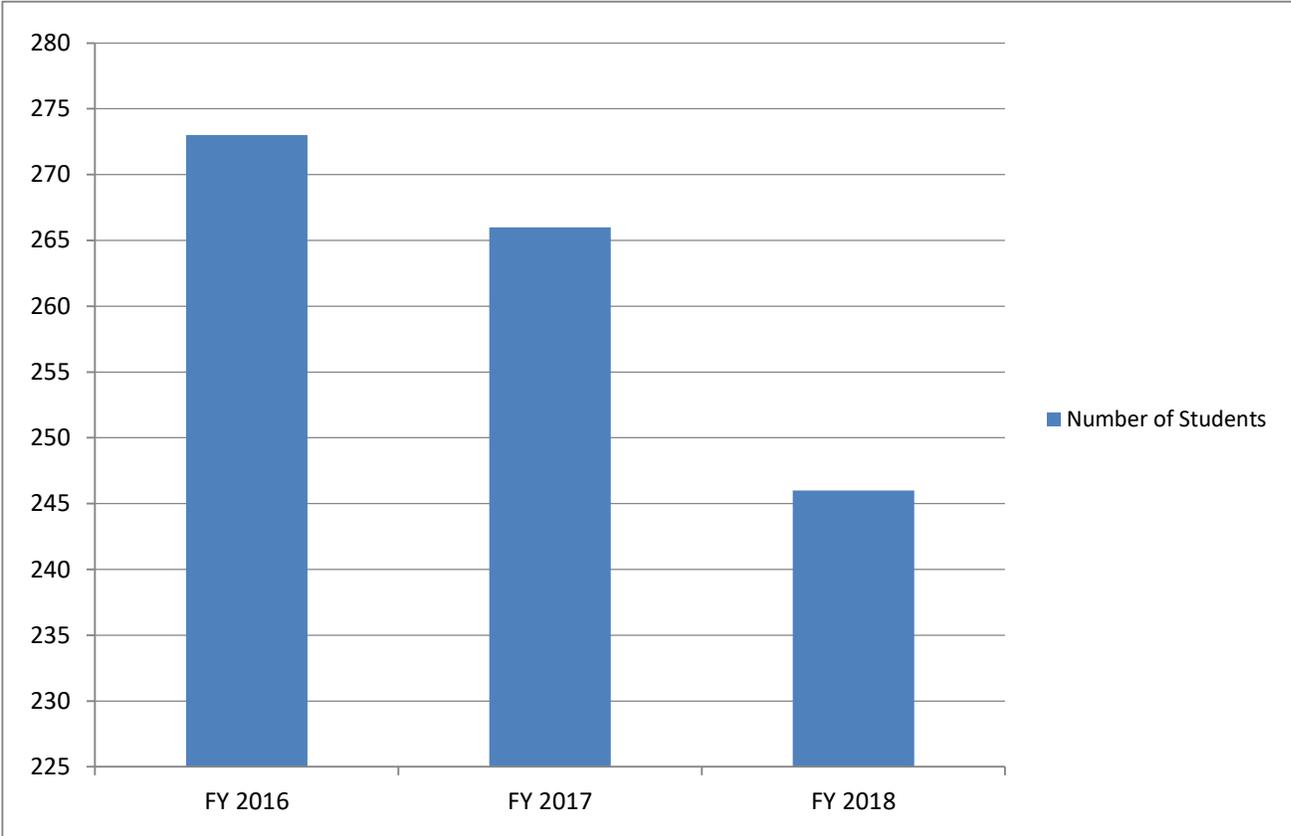
In fiscal year 2018 the district continued to share the Spanish instructor with the McIntosh School district. The sharing of instructors allowed both districts to offer additional programs to the students. The shared Spanish instructor has a contract with each district for their share of time.

Fiscal year 2018 is the first year that the Food Service Fund has shown an increase in the fund balance without a transfer from the general fund. The change was due to the staff instructed to keep the menu cost down while still preparing good meals.

The board approved the continuation of the opt out however increased the amount to \$150,000 effective with the taxes levied in 2014 payable in 2015. The opt out is scheduled to be on the board agenda for renewal in January 2019.

Student Enrollment

The enrollment has decreased the last few years. The fall enrollment was 273 students for fiscal year 2016, 266 students for fiscal year 2017 and 246 students for fiscal year 2018. The enrollment for the upcoming fiscal year 2019 as taken in September 2018 enrollment was 239 students. At the present time the enrollment is projected to remain somewhat steady.



Contacting the School's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers as well as investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Lemmon School District 52-4 Business Office, 209 Third Street West, Lemmon, South Dakota 57638.

Lemmon School District No. 52-4
Statement of Net Position – Exhibit I
June 30, 2018

	Governmental Activities
Assets	
Cash	\$ 3,141,256
Taxes receivable	1,258,473
Inventories	2,766
Other receivables	267,539
Net pension asset	7,743
Capital assets, not being depreciated	
Land	10,580
Capital assets, net of accumulated depreciation	
Improvements	294,292
Buildings	1,716,825
Machinery/equipment	491,124
Total assets	7,190,598
Deferred Outflows of Resources	
Pension plans	846,006
Liabilities	
Accounts payable	44,994
Other current liabilities	195,656
Noncurrent liabilities	
Due within one year	
Compensated absences	6,000
Energy loan	13,085
SD SDBF assessment	21,030
Capital lease	136,278
Due in more than one year	
Compensated absences	14,764
Energy loan	65,425
SD SDBF assessment	43,020
Total OPEB obligation	94,944
Total liabilities	635,196
Deferred Inflow of Resources	
Taxes levied for future period	1,333,448
Pension plans	166,035
Total deferred inflows of resources	1,499,483
Net Position	
Net investment in capital assets	2,298,033
Restricted for	
Special education	883,097
Capital outlay	1,084,894
SDRS pension plan	687,714
Unrestricted	948,187
Total net position	\$ 5,901,925

Lemmon School District No. 52-4
Statement of Activities – Exhibit II
Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		Net (Expense)
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	Revenue and Changes in Net Position
				<u>Total Governmental Activities</u>
Primary Government				
Governmental activities				
Instruction	\$ 1,359,718	\$ 11,000	\$ 193,174	\$ (1,155,544)
Support services	1,565,787	69,032	57,991	(1,438,764)
Cocurricular activities	269,196	30,230	-	(238,966)
Nonprogrammed charges	13,771	-	-	(13,771)
Total Primary Government	<u>\$ 3,208,472</u>	<u>\$ 110,262</u>	<u>\$ 251,165</u>	<u>(2,847,045)</u>
		General Revenues		
		Taxes		
				2,640,888
				136,191
		Revenue from state sources		
				928,230
				216,921
				6,365
				72,627
		Total general revenues		<u>4,001,222</u>
		Gain on disposal of capital assets, net of insurance recoveries		<u>6,610</u>
		Change in net position		<u>1,160,787</u>
		Net position - June 30, 2017		<u>4,741,138</u>
		Net position - June 30, 2018		<u>\$ 5,901,925</u>

Lemmon School District No. 52-4
Balance Sheet – Governmental Funds – Exhibit III
June 30, 2018

	General	Special Revenue Funds		Other	Total
	Fund	Capital Outlay	Special Education	Governmental Funds	Governmental Funds
Assets					
101 Cash	\$ 1,070,223	\$ 1,133,630	\$ 917,109	\$ 20,294	\$ 3,141,256
110 Taxes receivable--current	487,829	456,659	294,732	-	1,239,220
112 Taxes receivable--delinquent	11,304	4,992	2,957	-	19,253
120 Accounts receivable	-	-	-	2	2
140 Due from other governments	257,974	-	3,563	-	261,537
150 Imprest account	6,000	-	-	-	6,000
170 Inventory	-	-	-	2,766	2,766
Total Assets	\$ 1,833,330	\$ 1,595,281	\$ 1,218,361	\$ 23,062	\$ 4,670,034
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
402 Accounts payable	\$ 25,550	\$ 14,559	\$ 1,946	\$ 2,939	\$ 44,994
404 Contracts payable	158,497	-	13,386	-	171,883
450 Payroll deductions and withholdings and employer matching payable	21,661	-	-	2,112	23,773
Total Liabilities	205,708	14,559	15,332	5,051	240,650
Deferred Inflows of Resources:					
474 Unavailable revenue-property taxes	11,304	4,992	2,957	-	19,253
474 Taxes levied for future periods	517,688	495,828	319,932	-	1,333,448
Total deferred inflows of resources	528,992	500,820	322,889	-	1,352,701
Fund Balances					
703 Nonspendable	-	-	-	2,766	2,766
720 Restricted for Special Education	-	-	880,140	-	880,140
Capital Outlay	-	1,079,902	-	-	1,079,902
750 Assigned for Food Service	-	-	-	15,245	15,245
704 Unassigned	1,098,630	-	-	-	1,098,630
Total Fund Balances	1,098,630	1,079,902	880,140	18,011	3,076,683
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,833,330	\$ 1,595,281	\$ 1,218,361	\$ 23,062	\$ 4,670,034

Lemmon School District No. 52-4
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – Exhibit IV
 June 30, 2018

Total Fund Balances - Governmental Funds		\$ 3,076,683
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.		2,512,821
Assets, such as taxes receivable that are not available to pay for current period expenditures, are deferred inflows in the fund level statements.		19,253
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		679,971
The net pension asset does not represent available financial resources and therefore is not reported in the funds.		7,743
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	\$ (20,764)	
Energy Loan	(78,510)	
SD SDBF Assessment	(64,050)	
Capital Lease	(136,278)	
OPEB Obligation	(94,944)	
		(394,546)
Net Position - Governmental Activities		\$ 5,901,925

Lemmon School District No. 52-4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V
Year Ended June 30, 2018

	General Fund	Special Revenue Funds		Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education		
Revenues					
1000 Revenue from local sources					
1100 Taxes					
1110 Ad valorem taxes	\$ 1,030,576	\$ 993,124	\$ 606,777	\$ -	\$ 2,630,477
1120 Prior years' ad valorem taxes	5,625	2,748	1,108	-	9,481
1130 Tax deed revenue	820	-	-	-	820
1140 Gross receipts taxes	136,191	-	-	-	136,191
1190 Penalties and interest on taxes	3,952	3,831	2,164	-	9,947
1300 Tuition and fees					
1310 Out of state tuition	11,000	-	-	-	11,000
1500 Earnings on investments and deposits	13,745	-	-	-	13,745
1600 Sales	-	-	-	69,032	69,032
1700 Cocurricular activities					
1790 Other pupil activity income	30,230	-	-	-	30,230
1900 Other revenue from local sources					
1920 Contributions and donations	-	12,293	-	-	12,293
1970 Charges for services	1,688	-	169	-	1,857
1990 Other	29,487	-	124	-	29,611
2000 Revenue from intermediate sources					
2100 County sources					
2110 County apportionment	14,678	-	-	-	14,678
2200 Revenue in lieu of taxes	4,241	-	-	-	4,241
3000 Revenue from state sources					
3110 Unrestricted grants-in-aid	928,230	-	-	-	928,230
3810 State Reimbursements	-	-	-	427	427
4000 Revenue from federal sources					
4100 Grants-in-aid					
4110 Unrestricted grants-in-aid received directly from Federal Government	65,999	-	-	-	65,999
4120 Unrestricted grants-in-aid received from Federal Government through State	20,971	-	-	-	20,971
4150-4199 Restricted grants-in- aid received from Federal Government through State	117,122	-	76,052	-	193,174
4200 Revenue in Lieu of Taxes (PILT)	129,164	-	-	-	129,164
4810 Federal Reimbursements	-	-	-	46,261	46,261
4820 Donated Food	-	-	-	11,303	11,303
4900 Other federal revenue	787	-	-	-	787
Total Revenue	2,544,506	1,011,996	686,394	127,023	4,369,919

Lemmon School District No. 52-4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V
Year Ended June 30, 2018

	General Fund	Special Revenue Funds		Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education		
Expenditures					
Current					
1000 Instruction					
1100 Regular programs					
1110 Elementary	582,961	25,733	-	-	608,694
1120 Middle School	91,203	-	-	-	91,203
1130 High School	404,217	49,558	-	-	453,775
1190 Other regular programs	96,880	-	-	-	96,880
1200 Special programs					
1220 Programs for Special Education	-	-	240,633	-	240,633
1270 Educationally deprived	75,681	-	-	-	75,681
2000 Support services					
2120 Guidance	6,781	-	-	-	6,781
2130 Health	1,656	-	-	-	1,656
2140 Psychological	-	-	8,985	-	8,985
2150 Speech Pathology	-	-	59,274	-	59,274
2170 Student therapy services	-	-	2,056	-	2,056
2200 Instructional staff					
2210 Improvement of instruction	5,481	-	-	-	5,481
2220 Educational media	12,032	-	-	-	12,032
2300 General administration					
2310 Board of Education	64,795	-	-	-	64,795
2320 Executive administration	242,429	-	-	-	242,429
2400 School administration					
2410 Office of the Principal	213,267	-	-	-	213,267
2490 Other	91	-	-	-	91
2500 Support services - business					
2520 Fiscal services	92,504	-	-	-	92,504
2540 Operation and maintenance of plant	474,238	12,213	-	-	486,451
2550 Pupil transportation	125,224	-	-	-	125,224
2560 Food service	4,487	-	-	125,845	130,332
2700 Support services - Special Education					
2710 Administrative costs	-	-	18,543	-	18,543
2730 Transportation costs	-	-	80	-	80
2760 Autism program	-	-	1,391	-	1,391
4000 Nonprogrammed charges					
4600 Insurance costs	13,771	-	-	-	13,771
5000 Debt services	-	62,326	-	-	62,326
6000 Cocurricular activities					
6100 Male activities	71,982	-	-	-	71,982
6200 Female activities	40,298	-	-	-	40,298
6900 Combined activities	50,581	25,233	-	-	75,814
Capital outlay	-	263,600	-	-	263,600
Total expenditures	2,670,559	438,663	330,962	125,845	3,566,029

Lemmon School District No. 52-4

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V

Year Ended June 30, 2018

	General Fund	Special Revenue Funds		Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education		
Excess of Revenues Over (Under)					
Expenditures	(126,053)	573,333	355,432	1,178	803,890
Other Financing Sources (Uses)					
5110 Transfers in	15,176	-	-	-	15,176
8110 Transfers out	-	-	-	(15,176)	(15,176)
5130 Sale of surplus property	3,252	-	-	-	3,252
5140 Compensation for loss of general capital assets - insurance recoveries	-	9,628	-	-	9,628
Total Other Financing Sources (Uses)	18,428	9,628	-	(15,176)	12,880
Net Change in Fund Balance	(107,625)	582,961	355,432	(13,998)	816,770
Fund Balance - June 30, 2017	1,206,255	496,941	524,708	32,009	2,259,913
Fund Balance - June 30, 2018	<u>\$ 1,098,630</u>	<u>\$ 1,079,902</u>	<u>\$ 880,140</u>	<u>\$ 18,011</u>	<u>\$ 3,076,683</u>

Lemmon School District No. 52-4

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

Net Change in Fund Balances - Total Governmental Funds	\$ 816,770
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.	263,600
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	(243,234)
In the statement of activities gains on disposal of capital assets are reported, whereas, in the governmental funds, no gain or loss is realized.	(6,270)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	110
Principal payments on long-term liabilities are an expenditure in the governmental funds, but the payments decrease long-term liabilities in the statement of net position.	75,655
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	267,237
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(13,081)
Change in Net Position of Governmental Activities	<u>\$ 1,160,787</u>

Lemmon School District No. 52-4
Statement of Fiduciary Net Position – Fiduciary Funds – Exhibit VII
June 30, 2018

	Private-Purpose Trust Funds	Agency Funds
Assets		
Cash and certificates of deposit	\$ 106,389	\$ 64,790
Liabilities		
Amounts held for others	\$ -	\$ 64,790
Net Position		
Restricted for Medical Fund	\$ 106,389	\$ -

Lemmon School District No. 52-4
Statement of Changes in Fiduciary Net Position – Exhibit VIII
Year Ended June 30, 2018

	<u>Private-Purpose Trust Funds</u>
Additions	
Other additions	<u>\$ 6,500</u>
Deductions	
Other deductions	<u> 22,466</u>
Change in Net Position	<u> (15,966)</u>
Net Position - Beginning	<u> 122,355</u>
Net Position - Ending	<u><u> \$ 106,389</u></u>

Note 1 - Summary of Significant Accounting Policies

The following is a summary of the School District's significant accounting policies:

Reporting Entity

The reporting entity of the Lemmon School District No. 52-4 consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Basis of Presentation

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

Government-Wide Statements

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

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

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

Fund Financial Statements

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

1. Total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

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

Governmental Funds

	Description
General Fund	The General Fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund. The general fund is always a major fund.
Special Education Fund	A fund established by South Dakota Codified (SDCL) 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed by grants and property taxes.
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. This fund is financed by property taxes.

Fiduciary Funds

Private-Purpose Trust Fund Types – Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. These funds are used for the purpose of providing scholarships to students.

The Medical Fund is a private-purpose trust fund. The Medical Fund is funded through private funding sources and is used to pay medical expenses of needy students within Lemmon School District 52-4.

Agency Fund Types – Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds to hold assets as an agent in a trustee capacity for various classes, clubs and so on.

Interfund Eliminations

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated. In order to eliminate the grossing-up effect on the assets and liabilities within the governmental funds the advances between funds have been eliminated.

Measurement Focus and Basis of Accounting

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

Measurement Focus

Government-Wide Financial Statements

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements

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

Basis of Accounting

Government-Wide Financial Statements

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

Fund Financial Statements

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Lemmon School District No. 52-4, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2018 are revenues from federal, state, and local sources.

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

Deposits and Investments

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 deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 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 110 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

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

As of June 30, 2018, the School District did not have any investments.

Custodial and Concentration of Credit Risk

Custodial Credit Risk- Deposits: The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2018, the District's deposits were not exposed to custodial credit risk.

Concentration of Credit Risk: The School District places no limit on the amount that may be invested in any one issuer. The School District's deposits are fully insured and collateralized by the South Dakota Public Deposit Protection Collateral Program. All deposits are held at Dacotah Bank Lemmon.

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. All certificates mature within one year.

Credit Risk – State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The School District’s policy is to credit all income from deposits and investments to the General Fund, except the income from investments of the Food Service Fund and the Private Purpose Trust Funds are credited to those funds. United States generally accepted accounting principles, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investments earnings may be reported, while in the government-wide financial statements, they have been eliminated. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

Inventory

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

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

Capital Assets

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

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Interest costs incurred during construction of capital assets are not capitalized along with other capital asset costs.

The total June 30, 2018 balance of capital assets for governmental activities includes estimates of the original costs. These estimated original costs were established by deflated current replacement cost.

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	All	N/A	N/A
Improvements	\$ 1,000	Straight-line	30 years
Buildings	1,000	Straight-line	50 years
Machinery/equipment	1,000	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 governmental fund upon acquisition.

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of compensated absences, an energy loan, the SD SDBF assessment, and a capital lease payable.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures.

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

Sick leave is earned by the employees at the rate of 5 to 10 days per year for teachers and 9 to 10 days per year for support staff. After an employee has five consecutive years of service, upon termination, certified employees are entitled to receive compensation for their accrued sick leave balance on the basis of \$15.00 per day up to a maximum of 125 days for teachers and 45 days for support staff.

As of June 30, 2018, a liability of \$20,764 existed for accumulated unpaid leave balance (annual and sick) calculated at the employee's June 30, 2018 pay rates.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (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 expense (revenue) 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 government funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is changes in the net pension liability (asset) not included in pension expense (revenue) reported in the government-wide statement of net position.

Receivables, such as taxes receivable, 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. According to SDCL 10-33, deferred inflows or resources would also be recognized for gross receipts tax if they are received after their 60 day period of availability after the current period (September 1st).

Pensions

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

Program Revenues

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

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

Equity Classifications

Government-wide Statements

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

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.

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.

Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Restricted and Unrestricted Resources

It is the School District’s policy to first 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

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the School District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund Balance may be assigned by the Business Manager.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The nonspendable fund balance is comprised of amounts nonspendable in the form of inventory.

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

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

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

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

Implementation of GASB Statement No. 75

As of July 1, 2017, Lemmon School District No. 52-4 adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard replaces the requirements of GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments calculate and report the costs and obligations associated with postemployment benefits other than pensions (OPEB) in their basic financial statements. Employers are required to recognize OPEB amounts for all benefits provided through the plan which include the total OPEB liability and OPEB expense. The additional disclosures required by this standard are included in Note 9.

Note 2 - Property Tax

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year. Approximately 50% is considered to be applied to finance the budget of the current fiscal year, and the remaining percentage (50%) is considered to be applied to finance the budget for the subsequent year. The county bills and collects the school's taxes and remits them to the school. School district property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Current year property taxes receivable which are not available as a resource that can be used to finance the current year's appropriations and therefore are not susceptible to accrual have been reported as deferred inflows of resources in both fund financial statements and the government-wide financial statements.

Note 3 - Changes in Capital Assets

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

Governmental Activities

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets, not being depreciated				
Land	\$ 10,580	\$ -	\$ -	\$ 10,580
Total capital assets not being depreciated	10,580	-	-	10,580
Capital assets, being depreciated				
Improvements	586,382	82,844		669,226
Buildings	3,623,915	52,716	-	3,676,631
Machinery/equipment	2,160,715	128,040	(108,381)	2,180,374
Total capital assets being depreciated	6,371,012	263,600	(108,381)	6,526,231
Less accumulated depreciation for				
Improvements	(358,127)	(16,807)		(374,934)
Buildings	(1,878,421)	(81,385)	-	(1,959,806)
Machinery/equipment	(1,646,319)	(145,042)	102,111	(1,689,250)
Total accumulated depreciation	(3,882,867)	(243,234)	102,111	(4,023,990)
Total capital assets being depreciated, net	2,488,145	20,366	(6,270)	2,502,241
Governmental type activity capital assets, net	\$ 2,498,725	\$ 20,366	\$ (6,270)	\$ 2,512,821

Depreciation expense was charged to functions as follows:

Governmental activities		
Instruction		\$ 67,717
Support services		94,415
Co-curricular activities		81,102
Total depreciation expense- governmental		\$ 243,234

Note 4 - Non-Current Liabilities

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

Governmental Activities

	Compensated Absences	Energy Loan	SD SDBF Assessment	Capital Lease - Note 5	Total
Noncurrent liabilities payable, June 30, 2017	\$ 24,918	\$ 91,595	\$ 84,759	\$ 178,139	\$ 379,411
Payment of debt obligations	-	(13,085)	(20,709)	(41,861)	(75,655)
Accrual of compensated absences	17,393	-	-	-	17,393
Payment of compensated absences	(21,547)	-	-	-	(21,547)
Noncurrent liabilities payable, June 30, 2018	<u>20,764</u>	<u>78,510</u>	<u>64,050</u>	<u>136,278</u>	<u>299,602</u>
Current liabilities, due within one year	<u>6,000</u>	<u>13,085</u>	<u>21,030</u>	<u>136,278</u>	<u>176,393</u>
Noncurrent liabilities, due in more than one year	<u>\$ 14,764</u>	<u>\$ 65,425</u>	<u>\$ 43,020</u>	<u>\$ -</u>	<u>\$ 123,209</u>

Compensated absences for governmental activities typically have been liquidated from the General Fund.

The Energy Loan is a non-interest bearing loan and must be paid off in 10 years. The District makes annual payments from the Capital Outlay fund from the savings they receive in their electrical bill after completing the lighting project. Payments first started in July 2014. The annual payments to maturity as of June 30, 2018 are as follows:

<u>Year Ending</u>	<u>Energy Loan</u>
2019	\$ 13,085
2020	13,085
2021	13,085
2022	13,085
2023	13,085
2024	<u>13,085</u>
Total	<u>\$ 78,510</u>

The South Dakota School District Benefit Fund (SD SDBF) assessment is due October 1, 2020. Annual payments of principal and interest at 1.5% are due on the assessment and paid out of the General Fund. The annual payment requirements to maturity for the SD SDBF assessment outstanding as of June 30, 2018 are as follows:

<u>Year Ending</u>	SD SDBF Assessment		
	Principal	Interest	Total
2019	\$ 21,030	\$ 960	\$ 21,990
2020	21,350	645	21,995
2021	21,670	325	21,995
Total	\$ 64,050	\$ 1,930	\$ 65,980

Note 5 - Capital Lease

The School District leases a coach bus under a long-term lease agreement. The lease expires in fiscal year 2019.

Future minimum lease payments are as follows:

<u>Year Ending</u>	<u>Capital Lease</u>
2019	\$ 148,484
Less portion representing interest	12,206
Present value of minimum lease payments - Note 4	\$ 136,278

Leased property under capital leases at June 30, 2018 include:

	<u>2018</u>
Vehicles	\$ 220,000
Less accumulated depreciation	55,000
	\$ 165,000

Note 6 - Individual Fund/Interfund Balances and Transactions

Interfund transactions for the year ended June 30, 2018 were as follows:

	Transfer to General Fund
Transfer from Other governmental fund	\$ 15,176

The School District transferred monies from the pension fund to the general fund in order to close out the pension fund.

Note 7 - Restricted Net Position

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

Fund	Restricted by	Amount
Special Education	Law	\$ 883,097
Capital Outlay	Law	1,084,894
SDRS Pension Plan	Law	687,714
Total restricted net position		\$ 2,655,705

Note 8 - Retirement Plan

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

Benefits Provided

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

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 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, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2018 and 2017, and 2016 were \$101,629, \$104,009, and \$90,282, respectively.

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

At June 30, 2017, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the School District as of the measurement period June 30, 2017 and reported by the School District as of June 30, 2018 are as follows:

Proportionate share of total pension liability	\$ 9,926,707
Less proportionate share of net position restricted for pension benefits	<u>(9,934,450)</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (7,743)</u></u>

At June 30, 2018, the School District reported an asset of \$7,743 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017 and the total pension asset used to calculate the net pension 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, 2017, the School District's proportion was 0.08531790% which was an increase of 0.0061861% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized reduction of pension expense of \$269,362. At June 30, 2018 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 124,059	\$ -
Changes in assumption	601,172	-
Net difference between projected and actual earnings on pension plan investments	-	148,861
Changes in proportion and difference between School District contributions and proportionate share of contributions	19,146	17,174
District contributions subsequent to the measurement date	<u>101,629</u>	<u>-</u>
Total	<u><u>\$ 846,006</u></u>	<u><u>\$ 166,035</u></u>

\$101,629 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

<u>Year Ending</u>		
2019	\$	164,406
2020		263,430
2021		188,145
2022		<u>(37,639)</u>
Totals	\$	<u><u>578,342</u></u>

Actuarial Assumptions

The total pension asset in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	100%	

Discount Rate

The discount rate used to measure the total pension asset was 6.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension 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 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
School District's proportionate share of the net pension liability (asset)	\$ 1,418,072	\$ (7,743)	\$ (1,168,819)

Pension Plan Fiduciary Net Position

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

Note 9 - Other Post-Employment Benefits

General Information about the OPEB Plan

Plan description. The School District’s defined benefit OPEB plan is a single-employer plan that provides medical insurance benefits to eligible retirees as permitted by South Dakota Codified Law 6-1-16. Benefit provisions were established and may be amended during the negotiated agreement process between district certified staff and the governing board. No assets are accumulated in a trust that meets that meets the criteria in paragraph 4 of Statement 75.

Benefits provided. Any professional staff member who retires form the School District with at least 15 years of consecutive service with the School District may be eligible for retiree health insurance coverage. Effective July 1, 2015, the professional staff members may select the COBRA group medical insurance coverage upon retirement. The School District will contribute up to \$700 per month toward the COBRA family, 2-party or single group medical insurance premium for a period of up to 18 months. The professional staff member must contribute the remaining premium balance.

Employees covered by benefit terms. At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	2
Active employees	<u>13</u>
Total	<u><u>15</u></u>

Total OPEB Liability

The School District’s total OPEB liability of \$94,944 was measured as of June 30, 2018. The School District has elected to calculate the total OPEB liability and related information using the alternative measurement method as permitted for employers with plans that have fewer than 100 total members.

Assumptions and other inputs. Valuation of the total OPEB liability as of June 30, 2018 involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the plan are subject to continual revision of actual results are compared with past expectations and new estimates made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

In the post-employment benefit plan valuation, the alternative measurement method was used. This included a 1% rate of return. An annual healthcare cost trend was not used in the actuarial calculation because the employer’s contribution is fixed, regardless of healthcare cost trends. The liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2018 was 1 ½ years.

Changes in the Total OPEB Liability

Balance at June 30, 2017	\$ 77,709
Changes for the year	
Service cost	15,487
Interest	777
Changes in assumptions or other inputs	5,192
Benefit payments	(4,221)
Net changes	17,235
Balance at June 30, 2018	\$ 94,944

For the year ended June 30, 2018, the School District recognized OPEB expense of \$17,235.

Note 10 - Risk Management

The School District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2018, the School District managed its risks as follows:

Employee Health Insurance

The School District joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The School District pays a portion of the monthly medical insurance premium, with the remainder coming from the employee, to the pool to provide health insurance coverage to its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides a deductible of \$500 per person up to \$1,000 per family or \$1,000 per person up to \$2,000 per family or \$1,500 per person up to \$3,000 per family or \$2,500 per person up to \$5,000 per family or \$3,000 per person up to \$6,000 per family depending on the plan elected. The plan also provides for coinsurance of 80 percent up to \$2,500 per individual or \$5,000 per family. The \$3,000 per person up to \$6,000 per family plan is considered a high-deductible health plan qualifying for a health savings account. The coverage also includes a \$2,000,000 lifetime maximum per person.

The School District does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have never exceeded the liability coverage

At June 30, 2016, the South Dakota School District Health Benefits Fund had a deficit net position. During 2017, the Fund issued a fund-wide assessment to all of the districts participating in the Fund to make up this deficit net position. The amount assessed to the School District was \$84,759 which the School District chose to pay in four annual installments maturing October 1, 2020. At June 30, 2018, the South Dakota School District Health Benefits Fund had a positive net position.

Liability Insurance

The School District joined the Associated School Boards of South Dakota Property Liability Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The School District pays an annual premium to provide coverage for property, general liability, crime and auto.

The agreement with the Associated School Boards of South Dakota Property Liability Fund provides that the above coverage's will be provided to a \$22,000,000 limit for property, \$250,000,000 occurrence, \$2,000,000 limit for general, \$2,000,000 limit for auto liability, \$2,000,000 limit for employee benefits liability and a \$200,000 limit for crime. Member premiums are used by the pool for payment of claims and to pay for re-insurance for claims in excess of \$100,000 to the upper limit for property, general liability, and auto and employee benefits liability. The School District carries a \$500 deductible for the property, and a \$1,000 deductible for crime coverage.

The Associated School Boards of South Dakota also provides an excess aggregate property coverage which will provide an additional \$228,000,000 in excess of the \$22,000,000 primary limit for property.

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

Workers Compensation

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage and the Associated School Boards of South Dakota Property and Liability Fund for participating members of the pool. The School District is responsible for payment of a premium to the insurance pool along with other pool participants. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk.

For the year ended June 30, 2018, the pool's retained risk was \$250,000 per occurrence with additional insurance purchased from a private insurance company for an additional \$750,000 for total coverage of \$1,000,000 per occurrence for the workers compensation.

Unemployment Benefits

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

During the fiscal year ended June 30, 2018, the School District paid \$3,510 in unemployment benefits. At June 30, 2018, no other claims had been filed for unemployment benefits.

Note 11 - Cost-Sharing Arrangement

The School District participates in a cost-sharing arrangement for vocational education funds. The School Districts included in this arrangement includes Newell, Bison, and Lemmon. The grant application includes the amounts each school is requesting for the Carl Perkins Vocational Funds. The funds are sent directly to each school; therefore, Lemmon School District records only their share of the revenue and expenditures in the General Fund. Lemmon School District is listed as the fiscal agent on the application but provides no fiscal accounting to the schools. Any pooled expenditures are billed to and reimbursed by the schools involved.

Note 12 - Issued but Non-Effective Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. The first statement issued but not yet implemented that will significantly affect the District is Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. This statement will be implemented at the District in the year ended June 30, 2019.

The second statement issued but not yet implemented that will significantly affect the District is Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding 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. This statement will be implemented at the District in the year ended June 30, 2020.

The third statement issued but not yet implemented that will significantly affect the District is Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement will be implemented at the District in the year ended June 30, 2021.

The final statement issued but not yet implemented that will significantly affect the District is Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period. This statement will be implemented at the District in the year ended June 30, 2021.

Management has not yet determined the effect these pronouncements will have on the District's financial statements.

Note 13 - Subsequent Events

In May 2019 the School District approved the issuance of \$9.9 million in bonds for the construction of a 6th through 12th grade addition to the existing armory building. In relation to this project, the School District has entered into a contract with Co-Op Architecture to provide architectural services for a lump sum fee of \$35,000 for Phase I, with Phase II fees dependent upon Phase I findings.



Required Supplementary Information
June 30, 2018

Lemmon School District No. 52-4

Lemmon School District No. 52-4
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 921,000	\$ 969,000	\$ 1,030,576	\$ 61,576
1120 Prior years' ad valorem taxes	-	-	5,625	5,625
1130 Tax deed revenue	-	-	820	820
1140 Gross receipts taxes	130,000	130,000	136,191	6,191
1190 Penalties and interest on taxes	3,000	3,800	3,952	152
1300 Tuition and fees				
1310 Out of state tuition	11,000	11,000	11,000	-
1500 Earnings on investments and deposits	2,000	4,800	13,745	8,945
1700 Cocurricular activities				
1790 Other pupil activity income	22,050	26,050	30,230	4,180
1900 Other revenue from local sources				
1970 Charges for services	2,000	2,000	1,688	(312)
1990 Other	29,000	34,000	29,487	(4,513)
2000 Revenue from intermediate sources				
2100 County source				
2110 County apportionment	18,000	18,000	14,678	(3,322)
2200 Revenue in lieu of taxes	4,000	4,000	4,241	241
3000 Revenue from state source				
3100 Grant-in-aid				
3110 Unrestricted grants-in-aid	1,117,000	1,019,000	928,230	(90,770)
4000 Revenue from federal sources				
4100 Grants-in-aid				
4110 received directly from federal government	-	-	65,999	65,999
4120 Unrestricted grants-in-aid received from Federal Government through state	50,000	50,000	20,971	(29,029)
4150-4199 Restricted grants-in-aid received from Federal Government through the state	125,313	142,289	117,122	(25,167)
4200 Revenue in lieu of taxes (PILT)	122,000	130,000	129,164	(836)
4900 Other federal revenue	-	-	787	787
Total revenue	2,556,363	2,543,939	2,544,506	567

Lemmon School District No. 52-4
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2018

Expenditures	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
1000 Instruction				
1100 Regular Program				
1110 Elementary	564,725	602,704	582,961	19,743
1120 Middle school	127,740	95,940	91,203	4,737
1130 High School	400,633	424,907	404,217	20,690
1190 Other regular programs	122,924	116,114	96,880	19,234
1200 Special programs				
1270 Educationally deprived	79,019	78,266	75,681	2,585
2000 Support services				
2100 Pupils				
2120 Guidance	5,470	9,380	6,781	2,599
2130 Health	5,790	5,790	1,656	4,134
2200 Instructional staff				
2210 Improvement of instruction	5,000	5,500	5,481	19
2220 Educational media	35,105	26,405	12,032	14,373
2300 General administration				
2310 Board of Education	69,400	80,050	64,795	15,255
2320 Executive administration	158,665	253,890	242,429	11,461
2400 School administration				
2410 Office of the principal	212,220	215,020	213,267	1,753
2490 Other	-	100	91	9
2500 Business				
2520 Fiscal services	87,140	93,960	92,504	1,456
2540 Operation and maintenance of plant	572,975	549,919	474,238	75,681
2550 Pupil transportation	188,860	173,860	125,224	48,636
2560 Food service	5,500	7,362	4,487	2,875
3000 Community services				
3900 Other	1,000	1,000	-	1,000
4000 Nonprogrammed charges				
4600 Insurance costs	11,710	14,210	13,771	439
4900 Other nonprogrammed costs	1,500	1,500	-	1,500
6000 Cocurricular activities				
6100 Male activities	88,835	91,935	71,982	19,953
6200 Female activities	49,395	52,145	40,298	11,847
6900 Combined activities	67,250	70,255	50,581	19,674
7000 Contingencies	115,000	115,000	-	115,000
Total expenditures	<u>2,975,856</u>	<u>3,085,212</u>	<u>2,670,559</u>	<u>414,653</u>
Revenues over (under) expenditures	<u>(419,493)</u>	<u>(541,273)</u>	<u>(126,053)</u>	<u>415,220</u>

Lemmon School District No. 52-4
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Other financing sources (uses)				
5110 Transfers in	412,380	412,380	15,176	(397,204)
5130 Sale of surplus property	500	500	3,252	2,752
5140 Compensation for loss of general capital asset	1,000	1,000	-	(1,000)
Total other financing sources (uses)	<u>413,880</u>	<u>413,880</u>	<u>18,428</u>	<u>(395,452)</u>
Net change in fund balance	(5,613)	(127,393)	(107,625)	19,768
Fund balance - June 30, 2017	<u>1,206,255</u>	<u>1,206,255</u>	<u>1,206,255</u>	-
Fund balance - June 30, 2018	<u>\$ 1,200,642</u>	<u>\$ 1,078,862</u>	<u>\$ 1,098,630</u>	<u>\$ 19,768</u>

Lemmon School District No. 52-4
Budgetary Comparison Schedule – Capital Outlay Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 971,870	\$ 976,870	\$ 993,124	\$ 16,254
1120 Prior years' ad valorem taxes	-	-	2,748	2,748
1190 Penalties and interest on taxes	816	2,816	3,831	1,015
1900 Other revenue from local sources				
1920 Contributions and donations	-	12,300	12,293	(7)
Total revenue	<u>972,686</u>	<u>991,986</u>	<u>1,011,996</u>	<u>20,010</u>
Expenditures				
1000 Instruction				
1100 Regular program				
1110 Elementary	60,000	41,000	25,733	15,267
1130 High School	70,000	70,000	49,558	20,442
2500 Support services - business				
2540 Operation and maintenance of plant	265,000	244,700	147,086	97,614
2550 Pupil transportation	60,966	128,966	128,727	239
5000 Debt services	176,720	176,720	62,326	114,394
6900 Co-Curricular Equipment	-	25,300	25,233	67
Total expenditures	<u>632,686</u>	<u>686,686</u>	<u>438,663</u>	<u>248,023</u>
Revenues over expenditures	<u>340,000</u>	<u>305,300</u>	<u>573,333</u>	<u>268,033</u>
Other financing sources (uses)				
8110 Transfers out	(340,000)	(315,000)	-	315,000
5140 Compensation for loss of general capital assets - insurance recoveries	-	9,700	9,628	(72)
Total other financing sources (uses)	<u>(340,000)</u>	<u>(305,300)</u>	<u>9,628</u>	<u>314,928</u>
Net change in fund balance	-	-	582,961	582,961
Fund balance - June 30, 2017	<u>496,941</u>	<u>496,941</u>	<u>496,941</u>	<u>-</u>
Fund balance - June 30, 2018	<u>\$ 496,941</u>	<u>\$ 496,941</u>	<u>\$ 1,079,902</u>	<u>\$ 582,961</u>

Lemmon School District No. 52-4
 Budgetary Comparison Schedule – Special Education Fund
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1100 Ad valorem taxes	\$ 452,000	\$ 520,000	\$ 606,777	\$ 86,777
1120 Prior years' ad valorem taxes	-	-	1,108	1,108
1190 Penalties and interest on taxes	500	1,500	2,164	664
1900 Other revenue from local sources				
1970 Charges for services	200	200	169	(31)
1990 Other	-	-	124	124
4000 Revenue from federal sources				
4100 Grants-in-aid				
4150-4199 Restricted grants-in-aid received from Federal Government through the state	86,549	86,230	76,052	(10,178)
Total revenue	<u>539,249</u>	<u>607,930</u>	<u>686,394</u>	<u>78,464</u>
Expenditures				
1200 Special program				
1220 Programs for special education	343,100	396,995	240,633	156,362
2000 Support services				
2100 Pupils				
2140 Psychological	26,000	26,000	8,985	17,015
2150 Speech pathology	72,360	73,760	59,274	14,486
2170 Student therapy services	12,000	12,000	2,056	9,944
2700 Support services - special education				
2710 Administrative costs	40,640	55,675	18,543	37,132
2740 Transportation costs	9,500	9,500	80	9,420
2750 Residential program	25,000	25,000	-	25,000
2760 Autism program	9,000	9,000	1,391	7,609
Total expenditures	<u>537,600</u>	<u>607,930</u>	<u>330,962</u>	<u>276,968</u>
Revenues over expenditures	<u>1,649</u>	<u>-</u>	<u>355,432</u>	<u>355,432</u>
Net change in fund balance	1,649	-	355,432	355,432
Fund balance - June 30, 2017	<u>524,708</u>	<u>524,708</u>	<u>524,708</u>	<u>-</u>
Fund balance - June 30, 2018	<u>\$ 526,357</u>	<u>\$ 524,708</u>	<u>\$ 880,140</u>	<u>\$ 355,432</u>

Note 1 - Basis of Presentation

The Budgetary Comparison Schedules have been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedules present expenditures for capital outlay purposes within each function while the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances present capital outlay expenditures as a separate function.

Note 2 - Budgetary Legal Requirements

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

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

Lemmon School District No. 52-4

Other Postemployment Benefit Schedules – Schedule of Changes in the Total OPEB Liability and Related Ratios
June 30, 2018

<u>Year Ending</u>	<u>Service Cost</u>	<u>Interest</u>	<u>Changes of assumptions or other inputs</u>	<u>Net change in total OPEB liability</u>	<u>Total OPEB liability - beginning</u>	<u>Total OPEB liability - ending</u>	<u>Covered employee payroll</u>	<u>Total OPEB liability as a percentage of covered payroll</u>
2018	\$ 15,487	\$ 777	\$ 5,192	\$ 17,235	\$ 77,709	\$ 94,944	\$ 761,698	12.46%
2017	4,518	893	(4,626)	(11,614)	89,323	77,709	801,811	9.69%
2016	5,577	943	2,178	(5,020)	94,343	89,323	815,450	10.95%
2015	5,422	1,194	(10,578)	(25,066)	119,409	94,343	880,200	10.72%
2014	14,654	1,179	12,029	1,482	117,927	119,409	865,592	13.80%

*GASB Statement No. 75 requires ten years of information to be presented in this table. However, until a full 10 year trend is compiled, the District will present information for those years for which information is available.

No assets are accumulated in a trust for the OPEB Plan that meets that meets the criteria in paragraph 4 of GASB Statement No. 75.

In place of an actuarial valuation, the School District has elected to calculate the total OPEB liability and related information using the alternative measurement method as permitted for employers with plans that have fewer than 100 total members.

Lemmon School District No. 52-4
 Schedule of Employer's Share of Net Pension Liability (Asset) and Schedule of Employer's Contributions
 June 30, 2018

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

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2014	0.0929221%	\$ (669,466)	\$ 1,625,033	-41.20%	107.30%
SDRS	6/30/2015	0.0794857%	\$ (337,121)	\$ 1,454,787	-23.17%	104.10%
SDRS	6/30/2016	0.0791318%	\$ 267,299	\$ 1,504,689	17.76%	96.90%
SDRS	6/30/2017	0.0853179%	\$ (7,743)	\$ 1,733,482	-0.45%	100.10%

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

**Notes to Required Supplementary Information
 for the Year Ended June 30, 2018
 Schedule of Employer's Contributions
 Last 10 Fiscal Years***

Pension Plan	Fiscal Year Ending	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	6/30/2015	\$ 87,287	\$ 87,287	\$ -	\$ 1,454,787	6.00%
SDRS	6/30/2016	\$ 90,282	\$ 90,282	\$ -	\$ 1,504,689	6.00%
SDRS	6/30/2017	\$ 104,009	\$ 104,009	\$ -	\$ 1,733,482	6.00%
SDRS	6/30/2018	\$ 101,629	\$ 101,629	\$ -	\$ 1,693,818	6.00%

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

Changes of Benefit Terms

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

Legislation was also enacted in 2017 to:

- Modify the definition of Compensation to clarify included and excluded items,
- Expand the caps on increases in Compensation considered in Final Average Compensation,
- Extend the Final Average Compensation period from the current three years to five years for Foundation Members after a phase-in period, and
- Limit Compensation to the Internal Revenue Code Section 401(a)(17) limits for all Members, regardless of date of entry into SDRS.

Changes of Assumptions

As a result of an experience analysis covering the period from July 1, 2011 to June 30, 2016, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for this June 30, 2017 Actuarial Valuation. The changes to economic assumptions were very significant, and included reducing the inflation assumption to 2.25%, reducing the investment return assumption to 6.5%, and reducing the payroll growth assumption to 3.00%. The demographic assumption changes were less impactful. Among those changes were new mortality assumptions, updated retirement, termination and disability rates and updated salary increase assumptions.

The Actuarial Asset Valuation method was changed to the Fair Value of Assets. In addition, the Funding Method was changed from Frozen Entry Age Actuarial Cost Method, which was in use for GASB Statement No. 67 and 68 purposes.



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

To the Members of the School Board
Lemmon School District No. 52-4
Perkins County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lemmon School District No. 52-4, as of and for the year then ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Lemmon School District No. 52-4's basic financial statements and have issued our report thereon dated May 15, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lemmon School District No. 52-4's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lemmon School District No. 52-4's internal control. Accordingly, we do not express an opinion on the effectiveness of Lemmon School District No. 52-4's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2018-A, 2018-B, and 2018-C that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lemmon School District No. 52-4's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lemmon School District No. 52-4's Response to Findings

Lemmon School District No. 52-4's response to the findings identified in our audit are described in the accompanying schedule of findings. Lemmon School District No. 52-4's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Bismarck, North Dakota
May 15, 2019

Financial Statement Findings

**2018-A Segregation of Duties
Material Weakness**

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

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

Cause: The control deficiency could result in the improper recording of a transaction.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned function.

Recommendation: While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District.

Management's Response: The Lemmon School District is a small school district and has limited office staff which does not permit the complete segregation of duties. The district has in place an internal control procedure to fit our office size. To have proper segregation of duties per audit standards, the District would need to hire additional office staff. This is not feasible or economically possible for a district of our size.

**2018-B Material Proposed Audit Adjustments
Material Weakness**

Condition: We identified misstatements in the District's financial statements causing us to propose material audit adjustments.

Criteria: A good system of internal accounting control should provide for the proper reconciliations of all general ledger accounts and adjustments of those accounts to the reconciled balances. This also includes accounting for transactions in accordance with generally accepted accounting principles.

Cause: The District has limited staff available to research and obtain training when transactions outside of the typical day to day activities of the District occur.

Effect: Misstatements to the financial statements could result from inadequate controls over recording of transactions and it affects the District's ability to detect misstatements to the financial statements.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District.

Management's Response: The Lemmon School District's procedure in preparing financial statements has not changed, however, due to the auditing standards the auditors are required to post these comments if any audit adjustments are made.

2018-C Preparation of Financial Statements
Material Weakness

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your 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.

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Cause: The control deficiency could result in a misstatement to the presentation of the financial statements.

Effect: Inadequate controls over financial reporting of the District result in the more than remote likelihood that the District would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District and changes in reporting requirements.

Management's Response: The Lemmon School District's procedure in preparing financial statements has not changed, however the auditing standards require the auditors to post these comments if any audit adjustments are made. It is my understanding that this audit finding is in audit reports for both large and small districts.

2017-A Segregation of Duties
Material Weakness

Initial Fiscal Year Finding Occurred: 2008

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

Status: This is a repeat finding in the current year shown as 2018-A.

2017-B Recording of Transactions
Material Weakness

Initial Fiscal Year Finding Occurred: 2008

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

Status: This is a repeat finding in the current year shown as 2018-B.

2017-C Preparation of Financial Statements
Material Weakness

Initial Fiscal Year Finding Occurred: 2008

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

Status: This is a repeat finding in the current year shown as 2018-C.