



Financial Statements  
June 30, 2020

# Lemmon School District No. 52-4

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Lemmon School District No. 52-4  
School District Officials (Unaudited)  
June 30, 2020

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School Board Chairman	Linda O'Donnell
School Board Vice-Chairman	Dennis Maier
School Board Members	Danni Beer Marion BlueArm Mike Drayton Melissa Reede Randy Miller
Superintendent	Steve Bucks
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 (the "School District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, 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 February 2, 2021, 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.



Aberdeen, South Dakota  
February 2, 2021

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, 2020. 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 \$670,607 more than the \$4,029,441 in governmental expenditures.
- The total cost of the School's programs increased by \$345,724 with a large portion of the increase due to interest paid on long-term debt of \$271,214. This is a new expense for the School District due to the sale of the bonds as below. School District expenditures were held at a minimum when possible.
- The General Fund reported a net increase of \$113,466 for fiscal year 2020. The net increase in the general fund is partly due to a transfer from Capital Outlay in the amount of \$100,000. The School District posted a net increase in the fund balance for the general fund at the end of fiscal year 2019 in the amount of \$24,087 and a net decrease in fiscal year 2018 in the amount of \$107,625. The property tax opt out of \$150,000 was renewed in January 2020 for taxes payable in the 2020 – 2021 fiscal year.
- The School District does not have any outstanding capital outlay certificates or bonds. In fiscal year 2019, the voters of the district approved a bond issuance of approximately \$9.9 million for the renovation of existing facilities and the construction of a new addition for grades 6-12 onto the armory facility. The bonds were issued in November 2019 and construction began in June 2020.
- The School 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 \$52,340 with the final payment due in July 2024.
- The School 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 2020 is \$21,670 which the final payment is due October 2020. The interest was waived on this debt.

## 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 School 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**

	<u>Governmental Activities 2020</u>	<u>Governmental Activities 2019</u>
Assets		
Current and Other Assets	\$ 16,784,803	\$ 5,801,187
Capital Assets	2,645,921	2,322,020
Total assets	<u>19,430,724</u>	<u>8,123,207</u>
Deferred Outflows of Resources	<u>450,469</u>	<u>682,792</u>
Long-Term Debt Outstanding	10,187,692	214,283
Other Liabilities	614,789	252,279
Total Liabilities	<u>10,802,481</u>	<u>466,562</u>
Deferred Inflows of Resources	<u>1,690,447</u>	<u>1,638,367</u>
Net Position		
Net investment in capital assets	2,091,325	2,256,595
Restricted	4,233,675	3,445,600
Unrestricted	<u>1,063,265</u>	<u>998,875</u>
Total Net Position	<u>\$ 7,388,265</u>	<u>\$ 6,701,070</u>

The net position of the School District increased \$687,195 for fiscal year 2020 from fiscal year 2019; the district also posted an increase in the net position of \$799,145 for fiscal year 2019. The total liabilities have increased \$10,335,919 from the 2019 fiscal year. This increase is largely due to the issuance of the 2019 Series Bonds.

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

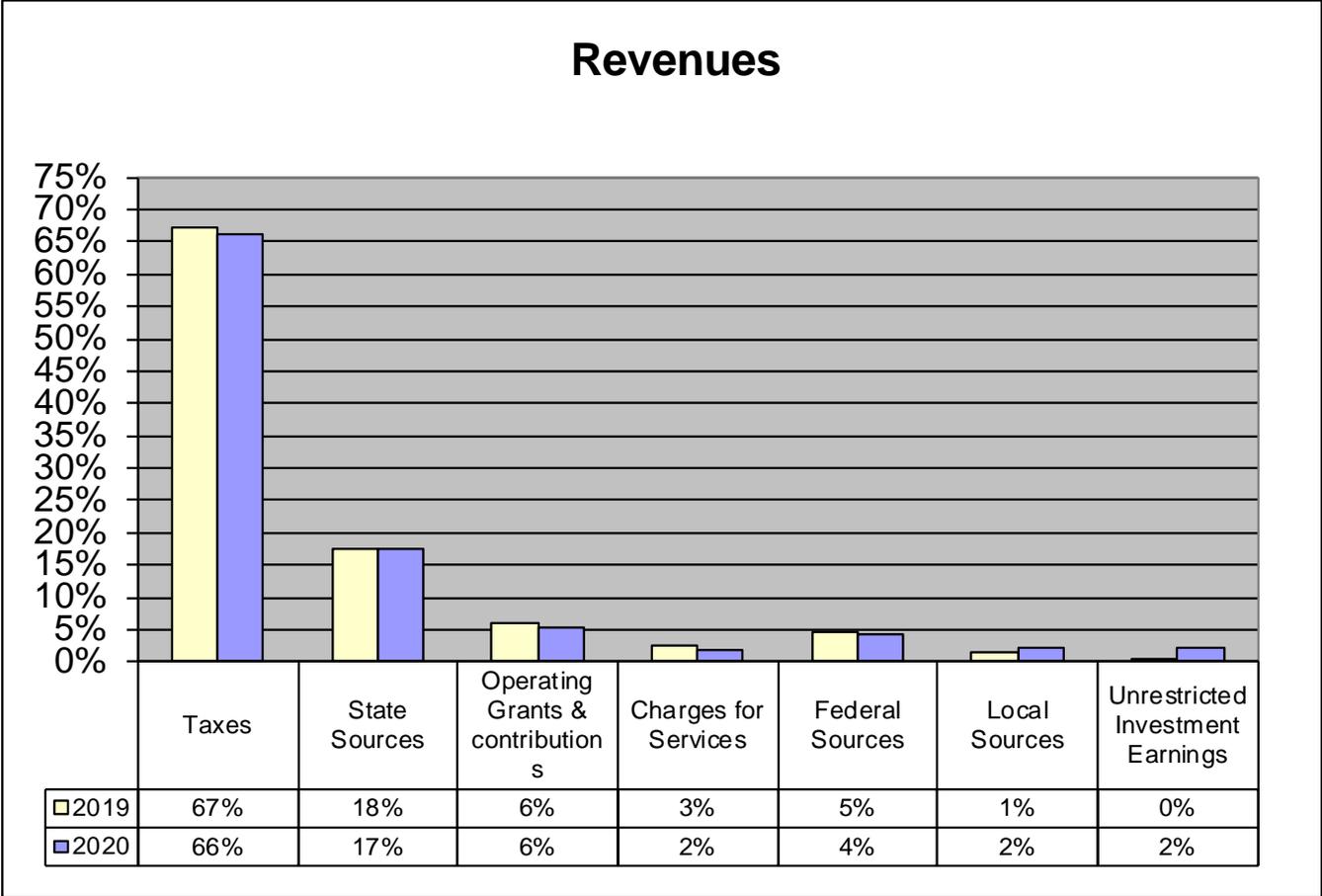
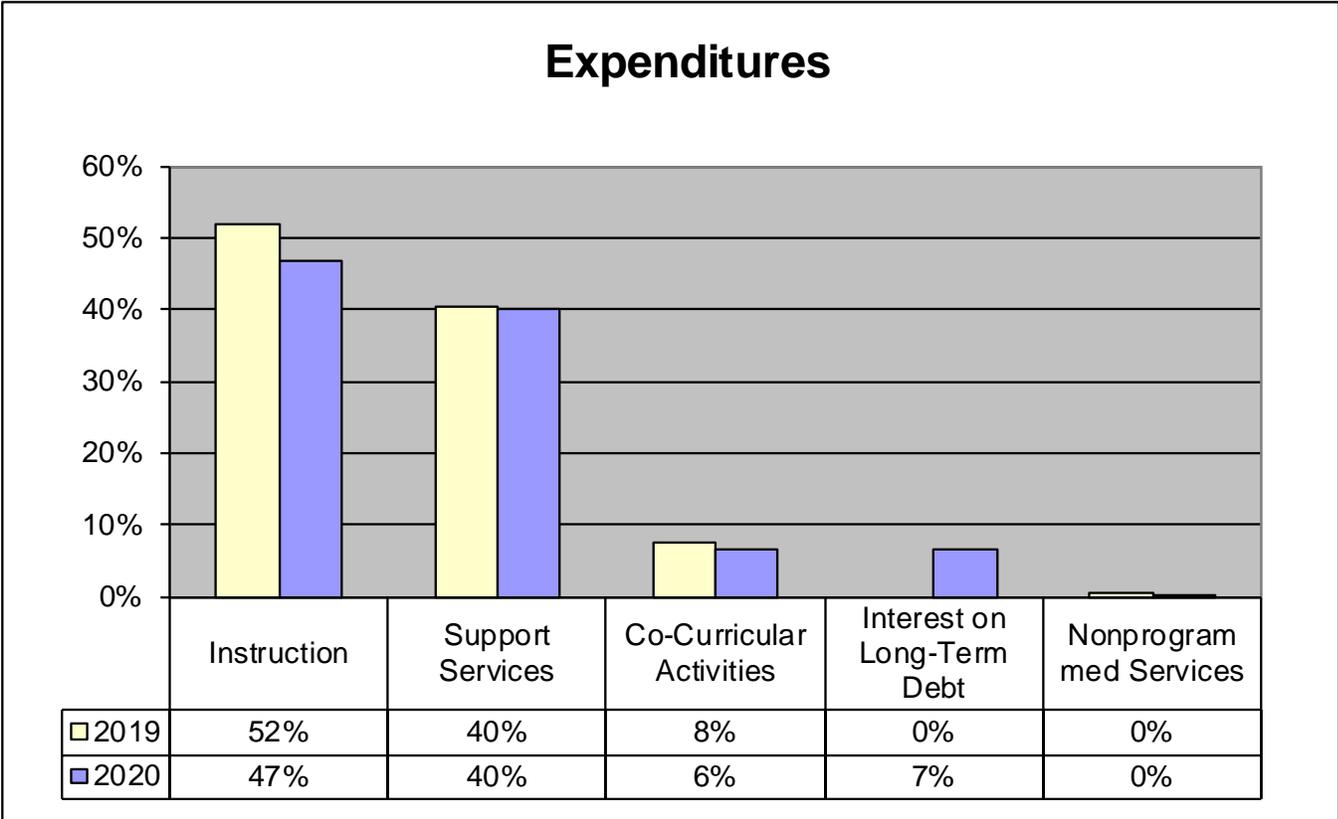


Figure A-3 – Expenditures



**Governmental Activities**

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

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

	Total Governmental Activities 2020	Total Governmental Activities 2019
Revenues		
Program Revenues		
Charges for Services	\$ 94,796	\$ 115,559
Operating Grants and Contributions	259,565	266,887
General Revenues		
Taxes	3,110,804	3,004,858
Revenue State Sources	815,649	785,674
Revenue Federal Sources	209,848	210,975
Revenue Intermediate Sources	108,623	65,703
Unrestricted Investment Earnings	100,763	9,182
Total Revenues	4,700,048	4,458,838
Expenses		
Instruction	1,880,897	1,906,360
Support Services	1,617,390	1,485,880
Cocurricular Activities	259,390	276,367
Interest on Long-Term Debt	271,214	-
Nonprogrammed Charges	550	15,110
Total Expenses	4,029,441	3,683,717
Total Revenues Over Expenses	670,607	775,121
Gain on disposal of capital assets, net of insurance recoveries	16,588	24,024
Increase in Net Position	687,195	799,145
Net Position, Beginning of Year	6,701,070	5,901,925
Net Position, End of Year	\$ 7,388,265	\$ 6,701,070

The Lemmon School District's total revenues (including special items) totaled \$4,700,048 for fiscal year ending June 30, 2020, which is an increase of \$241,210 from fiscal year 2019. Revenue from taxes, state sources, intermediate sources and interest income showed an increase while charges for services, operating grants and contributions and federal sources decreased slightly.

The total cost of all programs and services was \$4,029,411 for fiscal year ending June 30, 2020, which is an increase of \$345,724 from fiscal year 2019. The new expenditure of interest on long-term debt of \$271,214 is the largest increase in expenses. Slight increases and decreases in expenses were noted in other areas.

Approximately 66% of the School District's revenue came from property taxes with approximately 17% 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 School District's enrollment has held steady the last couple of years; however, there was a slight increase in enrollment for fiscal year 2020.

Fiscal year 2020 shows a slight increase in the state revenue which is partially due to the slight increase in enrollment, the local effort due to local tax evaluations and how the state funding formula is calculated. The overall increase in local effort is partially due to the bond redemption fund revenue which was new to the District in fiscal year 2020. The federal funding remained stable in fiscal year 2020. The School District continues to use the Title I funding where possible (see Figure A-2).

Fiscal year 2020 shows an increase in expenditures (see Table A-2). The School District's expenses cover a range of services, encompassing instruction, support services, capital outlay expenditures, interest on long-term debt, and food services (see Figure A-3).

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

The General Fund had an increase of \$113,466 in the fund balance at the end of the year. The School 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 state aid formula 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 2020, the Lemmon School District had invested \$2,645,921, net of depreciation in a broad range of capital assets, including, land, buildings and various machinery and equipment. This is a net increase of \$323,901 over fiscal year 2019. (See Table A-3).

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

	Governmental Activities 2020	Governmental Activities 2019
Land	\$ 10,580	\$ 10,580
Construction in progress	502,256	-
Improvements (net)	281,526	277,217
Buildings (net)	1,606,382	1,663,799
Machinery and equipment (net)	245,177	370,424
Total capital assets (net)	\$ 2,645,921	\$ 2,322,020

The increase in capital assets is primarily due to the addition of construction in progress from the new addition that started construction in June 2020.

**Long Term Debt (Note 4)**

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

- The School 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 five payments to date with a remaining balance due at the end of fiscal year 2020 of \$52,340.
- The South Dakota School District Benefit Fund balance was \$21,670 at the end of the 2020 fiscal year. The district has elected to pay this in four payments beginning in October 2017 with the last payment due in October 2020.
- The General Obligation Bonds sold in November 2019 is a new debt for the School District. The bonds were sold for the remodel and addition to the Lemmon Armory.
- The remainder of the long-term debt is compensated absences for which the School 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
	2020	2019	2020-2019	2020-2019
Compensated absences	\$ 25,423	\$ 23,518	\$ 1,905	8.10%
Energy Loan	52,340	65,425	(13,085)	-20.00%
GO Bonds Payable	9,991,837	-	9,991,837	100.00%
SD SDBF Assessment	21,670	43,020	(21,350)	-49.63%
Total outstanding debt and obligations	<u>\$ 10,091,270</u>	<u>\$ 131,963</u>	<u>\$ 9,959,307</u>	<u>7547.05%</u>

**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 2020, the SD Department of Education determined it to be \$1,728,492 of which \$699,208 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 minimal shift in the primary source of revenue. 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 slight increase in the fund balance for the General Fund is not attributable to any particular area in the budget. The School District administration and board try to hold expenses in all areas to a minimum when possible.

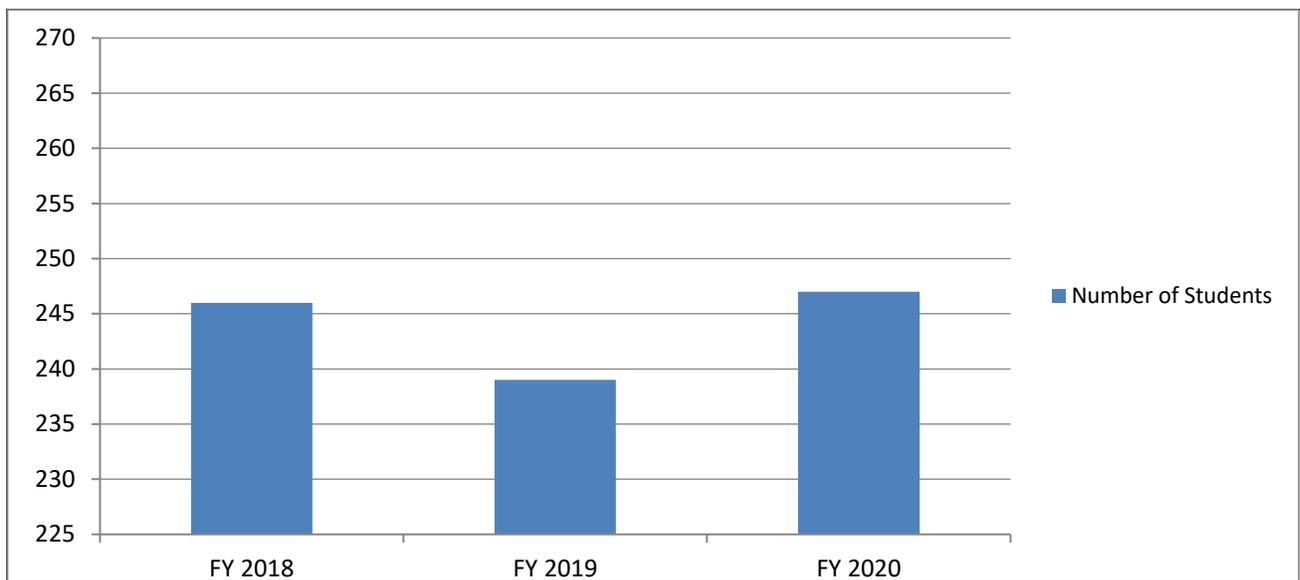
In fiscal year 2020 the Food Service Fund posted a negative fund balance. This was due to the mandated closure of school by the Governor of South Dakota due to COVID 19. Although sack lunches were provided and the direct reimbursement for those grab and go lunches were based on the free reimbursement, there was not sufficient revenue to cover the expenses of the sack lunches as well as food service salary and benefits.

In March 2020, the Governor of South Dakota mandated school closure due to COVID 19 for the remainder of the 2019 – 2020 school year. Distance learning was provided and the school served grab and go sack lunches. This was a difficult time as the school districts in the state were not ready for immediate transition to distance learning. Although the federal government passed the CARES Act (ESSER I funds) these funds were not immediately available to the school district. The eligible COVID 19 expenses that the district incurred in FY 2020 were not reimbursed by the grant until October 2020.

The board approved the continuation of the opt out of \$150,000 in January 2020 and it was not referred to a vote of the patrons.

### Student Enrollment

The enrollment has fluctuated slightly the last few years. The fall enrollment was 246 students for fiscal year 2018, 239 students for fiscal year 2019 and 247 students for fiscal year 2020. The enrollment for the upcoming fiscal year 2021 as taken in September 2020 was up slightly at 252 students. This enrollment number is what is used for the state aid calculation and does not include any students who tuition into the School District.



### 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, 2020

	Governmental Activities
Assets	
Cash	\$ 15,020,438
Taxes receivable	1,409,564
Inventories	7,460
Other receivables	338,848
Net pension asset	8,493
Capital assets, not being depreciated	
Land	10,580
Construction in progress	502,256
Capital assets, net of accumulated depreciation	
Improvements	281,526
Buildings	1,606,382
Machinery/equipment	245,177
Total assets	<u>19,430,724</u>
Deferred Outflows of Resources	
Pension plan	<u>450,469</u>
Liabilities	
Accounts payable	365,047
Other current liabilities	249,742
Noncurrent liabilities	
Due within one year	
Compensated absences	25,423
Energy loan	13,085
SD SDBF assessment	21,670
Bonds payable	275,000
Due in more than one year	
Energy loan	39,255
Bonds payable	9,716,837
OPEB obligation	96,422
Total liabilities	<u>10,802,481</u>
Deferred Inflow of Resources	
Taxes levied for future period	1,481,207
Pension plan	180,261
Other	28,979
Total deferred inflows of resources	<u>1,690,447</u>
Net Position	
Net investment in capital assets	2,091,325
Restricted for	
Special Education	1,584,609
Capital Outlay	2,198,005
Debt Service	172,360
SDRS Pension Plan	278,701
Unrestricted	<u>1,063,265</u>
Total net position	<u>\$ 7,388,265</u>

See Notes to Financial Statements

16

Lemmon School District No. 52-4  
Statement of Activities – Exhibit II  
Year Ended June 30, 2020

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total Governmental Activities</u>
Primary Government				
Governmental activities				
Instruction	\$ 1,880,897	\$ 12,000	\$ 201,393	\$ (1,667,504)
Support services	1,617,390	62,141	58,172	(1,497,077)
Cocurricular activities	259,390	20,655	-	(238,735)
Interest on long-term debt	271,214	-	-	(271,214)
Nonprogrammed charges	550	-	-	(550)
<b>Total Primary Government</b>	<b><u>\$ 4,029,441</u></b>	<b><u>\$ 94,796</u></b>	<b><u>\$ 259,565</u></b>	<b><u>(3,675,080)</u></b>
		General Revenues		
		Taxes		
				2,960,874
				149,930
		Revenue from state sources		
				815,649
		Revenue from federal sources		209,848
				100,763
		Other general revenues		108,623
				<u>4,345,687</u>
		Total general revenues		
				4,345,687
		Gain on disposal of capital assets, net of insurance recoveries		16,588
				<u>16,588</u>
		Change in net position		687,195
				<u>687,195</u>
		Net position - June 30, 2019		6,701,070
				<u>6,701,070</u>
		Net position - June 30, 2020		\$ 7,388,265
				<u>\$ 7,388,265</u>

Lemmon School District No. 52-4  
Balance Sheet – Governmental Funds – Exhibit III  
June 30, 2020

	General Fund	Special Revenue Funds		Bond Redemption	Capital Projects	Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education				
<b>Assets</b>							
101 Cash	\$ 1,194,167	\$ 2,226,188	\$ 1,602,959	\$ 194,685	\$ 9,802,389	\$ 50	\$15,020,438
110 Taxes receivable--current	543,032	391,304	140,429	304,904	-	-	1,379,669
112 Taxes receivable--delinquent	17,990	7,067	4,838	-	-	-	29,895
120 Accounts receivable	-	-	-	-	-	31	31
130 Due from food service fund	3,897	-	-	-	-	-	3,897
140 Due from other governments	300,662	-	20,277	-	-	11,878	332,817
150 Imprest account	6,000	-	-	-	-	-	6,000
170 Inventory	-	-	-	-	-	7,460	7,460
<b>Total Assets</b>	<b>\$ 2,065,748</b>	<b>\$ 2,624,559</b>	<b>\$ 1,768,503</b>	<b>\$ 499,589</b>	<b>\$ 9,802,389</b>	<b>\$ 19,419</b>	<b>\$16,780,207</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>							
<b>Liabilities</b>							
402 Accounts payable	\$ 16,837	\$ 6,600	\$ 1,763	\$ -	\$ 333,085	\$ 6,762	\$ 365,047
404 Contracts payable	169,781	-	22,618	-	-	-	192,399
410 Due to general fund	-	-	-	-	-	3,897	3,897
450 Payroll deductions and withholdings and employer matching payable	32,127	-	-	-	-	2,179	34,306
<b>Total Liabilities</b>	<b>218,745</b>	<b>6,600</b>	<b>24,381</b>	<b>-</b>	<b>333,085</b>	<b>12,838</b>	<b>595,649</b>
<b>Deferred Inflows of Resources:</b>							
551 Unavailable revenue-property taxes	17,990	7,067	4,838	-	-	-	29,895
553 Taxes levied for future periods	574,511	419,954	159,513	327,229	-	-	1,481,207
559 Other deferred inflows of resources	18,319	-	-	-	-	10,660	28,979
<b>Total Deferred Inflows of Resources</b>	<b>610,820</b>	<b>427,021</b>	<b>164,351</b>	<b>327,229</b>	<b>-</b>	<b>10,660</b>	<b>1,540,081</b>
<b>Fund Balances</b>							
703 Nonspendable	-	-	-	-	-	7,460	7,460
720 Restricted for							
Special Education	-	-	1,579,771	-	-	-	1,579,771
Capital Outlay	-	2,190,938	-	-	-	-	2,190,938
Debt Service	-	-	-	172,360	-	-	172,360
Capital Projects	-	-	-	-	9,469,304	-	9,469,304
704 Unassigned	1,236,183	-	-	-	-	(11,539)	1,224,644
<b>Total Fund Balances</b>	<b>1,236,183</b>	<b>2,190,938</b>	<b>1,579,771</b>	<b>172,360</b>	<b>9,469,304</b>	<b>(4,079)</b>	<b>14,644,477</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 2,065,748</b>	<b>\$ 2,624,559</b>	<b>\$ 1,768,503</b>	<b>\$ 499,589</b>	<b>\$ 9,802,389</b>	<b>\$ 19,419</b>	<b>\$16,780,207</b>

Lemmon School District No. 52-4

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – Exhibit IV

June 30, 2020

Total Fund Balances - Governmental Funds	\$ 14,644,477
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.	2,645,921
Assets, such as taxes receivable that are not available to pay for current period expenditures, are deferred inflows in the fund level statements.	29,895
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	270,208
The net pension asset does not represent available financial resources and therefore is not reported in the funds.	8,493
Unamortized balance of debt premiums are not due and payable in the current period and, therefore, are not reported in the funds.	(146,837)
Interest on long-term debt is not accrued in governmental funds, but rather, is recognized as an expenditure when due.	(23,037)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Compensated Absences	\$ (25,423)
Energy Loan	(52,340)
SD SDBF Assessment	(21,670)
Bonds payable	(9,845,000)
OPEB Obligation	(96,422)
	(10,040,855)
Net Position - Governmental Activities	\$ 7,388,265

Lemmon School District No. 52-4

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

	General Fund	Special Revenue Funds		Bond Redemption	Capital Projects	Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education				
Revenues							
1000 Revenue from local sources							
1100 Taxes							
1110 Ad valorem taxes	\$ 1,162,018	\$ 920,032	\$ 536,923	\$ 322,831	\$ -	\$ -	\$ 2,941,804
1120 Prior years' ad valorem taxes	6,186	3,694	2,340	-	-	-	12,220
1140 Gross receipts taxes	149,930	-	-	-	-	-	149,930
1190 Penalties and interest on taxes	4,829	4,412	3,252	36	-	-	12,529
1300 Tuition and fees							
1310 Out of state tuition	12,000	-	-	-	-	-	12,000
1500 Earnings on investments and deposits	23,370	-	-	-	77,393	-	100,763
1600 Food service	-	-	-	-	-	62,141	62,141
1700 Cocurricular activities							
1790 Other pupil activity income	20,655	-	-	-	-	-	20,655
1900 Other revenue from local sources							
1920 Contributions and donations	13,831	16,000	-	-	-	-	29,831
1970 Charges for services	1,413	-	141	-	-	-	1,554
1990 Other	43,225	4,000	-	-	-	411	47,636
2000 Revenue from intermediate sources							
2100 County sources							
2110 County apportionment	12,155	-	-	-	-	-	12,155
2120 Lease of county-owned land	1,258	-	-	-	-	-	1,258
2200 Revenue in lieu of taxes	3,660	-	-	-	-	-	3,660
3000 Revenue from state sources							
3110 Unrestricted grants-in-aid	815,649	-	-	-	-	-	815,649
3120 Restricted grants-in-aid	348	-	-	-	-	-	348
3810 State reimbursements	-	-	-	-	-	411	411
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	15,806	-	-	-	-	-	15,806
4150-4199 Restricted grants-in-aid received from federal government through state	137,704	-	63,341	-	-	-	201,045
4200 Revenue in Lieu of Taxes (PILT)	128,043	-	-	-	-	-	128,043
4810 Federal reimbursements	-	-	-	-	-	46,158	46,158
4820 Donated food	-	-	-	-	-	11,603	11,603
<b>Total Revenue</b>	<b>2,618,079</b>	<b>948,138</b>	<b>605,997</b>	<b>322,867</b>	<b>77,393</b>	<b>120,724</b>	<b>4,693,198</b>

Lemmon School District No. 52-4

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

	General Fund	Special Revenue Funds		Bond Redemption	Capital Projects	Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education				
Expenditures							
Current							
1000 Instruction							
1100 Regular programs							
1110 Elementary	527,049	53,297	-	-	-	-	580,346
1120 Middle school	137,288	-	-	-	-	-	137,288
1130 High school	455,426	36,301	-	-	-	-	491,727
1190 Other regular programs	14,720	-	-	-	-	-	14,720
1200 Special programs							
1220 Programs for special education	-	-	269,167	-	-	-	269,167
1270 Educationally deprived	75,014	-	-	-	-	-	75,014
2000 Support services							
2120 Guidance	41,375	-	-	-	-	-	41,375
2130 Health	3,820	-	-	-	-	-	3,820
2140 Psychological	-	-	4,009	-	-	-	4,009
2150 Speech pathology	-	-	46,904	-	-	-	46,904
2170 Student therapy services	-	-	2,658	-	-	-	2,658
2200 Instructional staff							
2210 Improvement of instruction	62,652	-	-	-	-	-	62,652
2220 Educational media	23,889	-	-	-	-	-	23,889
2300 General administration							
2310 Board of Education	66,291	-	-	-	-	-	66,291
2320 Executive administration	134,130	-	-	-	-	-	134,130
2400 School administration							
2410 Office of the Principal	220,309	-	-	-	-	-	220,309
2490 Other	150	-	-	-	-	-	150
2500 Support services - business							
2520 Fiscal services	94,597	-	-	-	-	-	94,597
2530 Facility construction	-	69,023	-	-	-	-	69,023
2540 Operation and maintenance of plant	452,993	26,133	-	-	-	-	479,126
2550 Pupil transportation	121,615	-	-	-	-	-	121,615
2560 Food service	4,204	-	-	-	-	136,823	141,027
2700 Support services - special education							
2710 Administrative costs	-	-	17,369	-	-	-	17,369
4000 Nonprogrammed charges							
4600 Insurance costs	550	-	-	-	-	-	550
5000 Debt services	-	13,085	-	150,507	101,074	-	264,666
6000 Cocurricular activities							
6100 Male activities	84,026	-	-	-	-	-	84,026
6200 Female activities	43,094	-	-	-	-	-	43,094
6900 Combined activities	50,289	-	-	-	-	-	50,289
Capital outlay	-	68,699	-	-	502,256	-	570,955
Total expenditures	2,613,481	266,538	340,107	150,507	603,330	136,823	4,110,786

Lemmon School District No. 52-4  
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V  
Year Ended June 30, 2020

	General Fund	Special Revenue Funds		Bond Redemption	Capital Projects	Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education				
Excess of Revenues Over (Under) Expenditures	4,598	681,600	265,890	172,360	(525,937)	(16,099)	582,412
Other Financing Sources (Uses)							
5110 Transfers in	100,000	-	-	-	-	-	100,000
8110 Transfers out	-	(100,000)	-	-	-	-	(100,000)
5120 Long-term debt issued	-	-	-	-	9,845,000	-	9,845,000
5123 Premium on debt issued	-	-	-	-	150,241	-	150,241
5130 Sale of surplus property	1,284	6,113	-	-	-	-	7,397
5140 Compensation for loss of general capital assets - insurance recoveries	7,584	10,425	-	-	-	-	18,009
Total Other Financing Sources (Uses)	108,868	(83,462)	-	-	9,995,241	-	10,020,647
Net Change in Fund Balance	113,466	598,138	265,890	172,360	9,469,304	(16,099)	10,603,059
Fund Balance - June 30, 2019	1,122,717	1,592,800	1,313,881	-	-	12,020	4,041,418
Fund Balance (Deficit) - June 30, 2020	\$ 1,236,183	\$ 2,190,938	\$ 1,579,771	\$ 172,360	\$ 9,469,304	\$ (4,079)	\$ 14,644,477

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, 2020

Net Change in Fund Balances - Total Governmental Funds	\$ 10,603,059
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.	570,955
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.	(238,236)
In the statement of activities, gains on disposal of capital assets are reported; whereas, in the governmental funds, no gain or loss is realized.	(8,818)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	6,850
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.	34,435
The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government wide statements.	(9,845,000)
Governmental funds report the effect of premiums and discounts when debt is first issued; whereas, these amounts are reported as part of debt and amortized in the statement of activities. This is the current-year premium of the debt issued.	(150,241)
Governmental funds report the effect of premiums and discounts when debt is first issued; whereas, these amounts are reported as part of debt and amortized in the statement of activities. This is the current-year amortization of the premium on debt.	3,404
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	(250,169)
Accrued interest reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds.	(23,037)
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.	(16,007)
Change in Net Position of Governmental Activities	<u>\$ 687,195</u>

Lemmon School District No. 52-4  
Statement of Fiduciary Net Position – Fiduciary Funds – Exhibit VII  
June 30, 2020

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	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash	<u>\$ 100,670</u>	<u>\$ 116,826</u>
Liabilities		
Amounts held for others	<u>\$ -</u>	<u>116,826</u>
Net Position		
Restricted for Medical Fund	<u>\$ 100,670</u>	<u>\$ -</u>

Lemmon School District No. 52-4  
Statement of Changes in Fiduciary Net Position – Exhibit VIII  
Year Ended June 30, 2020

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	<u>Private-Purpose Trust Funds</u>
Additions	
Other additions	<u>\$ 23,685</u>
Deductions	
Other deductions	<u>29,556</u>
Change in Net Position	<u>(5,871)</u>
Net Position - Beginning	<u>106,541</u>
Net Position - Ending	<u><u>\$ 100,670</u></u>

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

The following is a summary of the Lemmon School District No. 52-4's significant accounting policies:

**Reporting Entity**

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

**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 School District or it meets the following criteria:

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

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

**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 School 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.
Bond Redemption Fund	A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest of general obligation bonded debt. The Bond Redemption Fund is the only debt service fund maintained by the School District.
Capital Projects Fund	The Capital Projects Fund is the only capital projects fund maintained by the School District to account for the financial resources to be used for the construction of major capital facilities being the armory addition.

### **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, 2020, are revenues from federal, state, and local sources.

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

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

All 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 District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain, at all times, segregated from their other assets, eligible collateral having a value equal to at least 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 only in a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or b) repurchase agreements fully collateralized by securities described in (a); or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2020, 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, 2020, 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. As of June 30, 2020, the School District did not have any investments.

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

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

**Assignment of Investment Income:** State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The School District's policy is to credit all income from deposits and investments to the General Fund, except for the Capital Projects, Food Service Fund and the Private-Purpose Trust Funds, which are credited to those funds. United States generally accepted accounting principles, on the other hand, require 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 acquisition 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, 2020, 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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 depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of compensated absences, direct borrowings, and general obligation bonds.

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

### Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The School District has two items that qualify for reporting in this category. The School District reports contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability (asset) not included in pension 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 governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is changes in the net pension liability (asset) not included in pension 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 of 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 1<sup>st</sup>).

### 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.”

#### *Fund Financial Statements*

Governmental fund equity is classified as fund balance, and is distinguished between nonspendable, restricted, committed, assigned, or unassigned components. Fiduciary fund equity is reported as restricted net position.

### **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 nonspendable amounts 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

**Note 2 - Property Tax**

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District’s taxes and remits them to the School District. School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable, which is not intended to be used to finance the current year's appropriations and, therefore, are not susceptible to accrual, has been reported as deferred inflows of resources in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

**Note 3 - Changes in Capital Assets**

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

**Governmental Activities**

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020
Capital assets, not being depreciated				
Land	\$ 10,580	\$ -	\$ -	\$ 10,580
Construction in progress	-	502,256	-	502,256
Total capital assets not being depreciated	<u>10,580</u>	<u>502,256</u>	<u>-</u>	<u>512,836</u>
Capital assets, being depreciated				
Improvements	658,236	22,566	(8,000)	672,802
Buildings	3,656,606	16,624	(500)	3,672,730
Machinery/equipment	<u>2,188,641</u>	<u>29,509</u>	<u>(153,307)</u>	<u>2,064,843</u>
Total capital assets being depreciated	<u>6,503,483</u>	<u>68,699</u>	<u>(161,807)</u>	<u>6,410,375</u>
Less accumulated depreciation for				
Improvements	(381,019)	(10,257)	-	(391,276)
Buildings	(1,992,807)	(81,981)	8,440	(2,066,348)
Machinery/equipment	<u>(1,818,217)</u>	<u>(145,998)</u>	<u>144,549</u>	<u>(1,819,666)</u>
Total accumulated depreciation	<u>(4,192,043)</u>	<u>(238,236)</u>	<u>152,989</u>	<u>(4,277,290)</u>
Total capital assets being depreciated, net	<u>2,311,440</u>	<u>(169,537)</u>	<u>(8,818)</u>	<u>2,133,085</u>
Governmental type activity capital assets, net	<u>\$ 2,322,020</u>	<u>\$ 332,719</u>	<u>\$ (8,818)</u>	<u>\$ 2,645,921</u>

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 67,809
Support services	88,446
Cocurricular activities	<u>81,981</u>
Total depreciation expense - governmental	<u>\$ 238,236</u>

**Note 4 - Long-Term Liabilities**

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

	Primary Government - Governmental Activities				Total Debt	Total Governmental Activities
	Compensated Absences	Direct Borrowings and Direct Placements		Bonds Payable		
		Energy Loan	SD SDBF Assessment	General Obligation		
Noncurrent liabilities payable, June 30, 2019	\$ 23,518	\$ 65,425	\$ 43,020	\$ -	\$ 108,445	\$ 131,963
Increases	19,048	-	-	9,995,241	9,995,241	10,014,289
Decreases	(17,143)	(13,085)	(21,350)	(3,404)	(37,839)	(54,982)
Noncurrent liabilities payable, June 30, 2020	<u>25,423</u>	<u>52,340</u>	<u>21,670</u>	<u>9,991,837</u>	<u>10,065,847</u>	<u>10,091,270</u>
Current liabilities, due within one year	<u>25,423</u>	<u>13,085</u>	<u>21,670</u>	<u>275,000</u>	<u>309,755</u>	<u>335,178</u>
Noncurrent liabilities, due in more than one year	<u>\$ -</u>	<u>\$ 39,255</u>	<u>\$ -</u>	<u>\$ 9,716,837</u>	<u>\$ 9,756,092</u>	<u>\$ 9,756,092</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 School 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, 2020, are as follows:

Year Ending June 30,	Energy Loan
2021	\$ 13,085
2022	13,085
2023	13,085
2024	13,085
Total	<u>\$ 52,340</u>

The South Dakota School District Benefit Fund (SD SDBF) assessment is due in full October 1, 2020. Annual payments of principal and interest at 1.5% are due on the assessment and paid out of the General Fund however the SD SDBF has waived future interest payments. The annual payment requirements to maturity for the SD SDBF assessment outstanding as of June 30, 2020 was \$21,670 due in fiscal year 2021.

The Series 2019 General Obligation Bonds are paid from property taxes from the Bond Redemption fund and are due December 1, 2043. Annual payments of principal and semi-annual payments of interest at rates ranging from 2% – 4% are required. The payment requirements to maturity for the bonds outstanding as of June 30, 2020, excluding the unamortized debt premium of \$146,837 are as follows:

Year Ending June 30,	Bonds Payable		
	Principal	Interest	Total
2021	\$ 275,000	\$ 270,940	\$ 545,940
2022	300,000	259,440	559,440
2023	310,000	247,240	557,240
2024	320,000	234,640	554,640
2025	335,000	221,540	556,540
2026-2030	1,840,000	951,919	2,791,919
2031-2035	2,055,000	735,669	2,790,669
2036-2040	2,315,000	468,540	2,783,540
2041-2045	2,095,000	125,163	2,220,163
Total	\$ 9,845,000	\$ 3,515,091	\$ 13,360,091

**Note 5 - Individual Fund/Interfund Balances and Transactions**

At June 30, 2020, the General Fund had an interfund receivable and the Food Service Fund had an interfund payable in the amount of \$3,897 to cover a negative cash balance within the Food Service Fund as of June 30, 2020.

During the year ended June 30, 2020, the School District transferred \$100,000 from the Capital Outlay Fund to the General Fund to reimburse the General Fund for expenses that are allowable to be paid from the Capital Outlay Fund.

**Note 6 - 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	\$ 1,584,609
Capital Outlay	Law	2,198,005
Debt Service	Law	172,360
SDRS Pension Plan	Law	278,701
Total restricted net position		\$ 4,233,675

**Note 7 - Pension Plan**

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

**Benefits Provided**

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

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

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater than or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3<sup>rd</sup> quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3<sup>rd</sup> quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater than or equal to the accrued liabilities.

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

**Contributions**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State Statute also requires the employer to contribute an amount equal to the employee's contribution. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2020, 2019, and 2018, equal to required contributions each year, were \$104,356, \$102,237, and \$101,629, respectively.

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

At June 30, 2019, SDRS is 100.09% funded and accordingly has a net pension asset. The proportionate 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, 2019, and reported by the School District as of June 30, 2020, are as follows:

Proportionate share of total pension liability	\$ 9,987,259
Less proportionate share of net position restricted for pension benefits	<u>(9,995,752)</u>
 Proportionate share of net pension liability (asset)	 <u><u>\$ (8,493)</u></u>

At June 30, 2020, the School District reported an asset of \$8,493 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019, 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, 2019, the School District’s proportion was 0.0801404% which was a decrease of 0.001336% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the School District recognized pension expense of \$250,157. At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 33,314	\$ 3,844
Changes in assumption	293,315	120,245
Net difference between projected and actual earnings on pension plan investments	-	48,925
Changes in proportion and difference between School District contributions and proportionate share of contributions	19,484	7,247
District contributions subsequent to the measurement date	104,356	-
Total	\$ 450,469	\$ 180,261

\$104,356 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

<u>Year Ending June 30</u>	
2021	\$ 188,490
2022	(23,434)
2023	(16,164)
2024	16,960
Totals	\$ 165,852

### Actuarial Assumptions

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

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

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

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

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

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	2.0%	0.9%
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 plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension 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)	\$ 1,409,620	\$ (8,493)	\$ (1,163,998)

**Pension Plan Fiduciary Net Position**

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

**Note 8 - 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 the criteria in paragraph 4 of Statement 75.

**Benefits Provided**

Any professional staff member who retires from 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 the valuation date of June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments		-	
Active employees		17	
Total		17	

**Total OPEB Liability**

The School District’s total OPEB liability of \$96,422 was measured as of June 30, 2020. 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, 2020, 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 and mortality. 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 .5% discount rate which is the expected long-term rate of return on cash deposits balances which are used to make all future benefit payments. Significant assumptions such as annual healthcare cost trend, inflation, salary changes, and ad hoc postemployment benefit changes were not used in the actuarial calculation because the employer's contribution is fixed based on the negotiated agreement between district certified staff and the governing board, regardless of those factors. Mortality rates were based on National Vital Statistics Reports, United States Life Tables published by the Centers for Disease Control. The liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2020, was 1.5 years.

**Changes in the Total OPEB Liability**

Balance at June 30, 2019	\$ 82,320
Changes for the year	
Service cost	6,709
Interest	412
Changes in assumptions or other inputs	6,981
Net changes	14,102
Balance at June 30, 2020	\$ 96,422

For the year ended June 30, 2020, the School District recognized OPEB expense of \$14,102.

## **Note 9 - Risk Management**

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

### **Employee Health Insurance**

The School District 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 for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides a deductible of \$500-\$3,000 per person up to \$1,000-\$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 not exceeded liability coverage during the past three years.

At June 30, 2016, the South Dakota School District Health Benefits Fund had a deficit net position. During 2017, the Fund issued a fund-wide assessment to all 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, 2020, 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 and Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information, and to obtain lower costs for that coverage. The School District's responsibility is to promptly report to, and cooperate with, the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the School District. The School District pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience-to-date of the ASBSD-PLF member, based on their exposure or type of coverage. The School District pays an annual premium to provide coverage for property, general liability, employee benefits 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, \$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 for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to, and cooperate with, the Fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool-retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual, per incident.

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

### **Unemployment Benefits**

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

During the fiscal year ended June 30, 2020, the School District paid \$0 in unemployment benefits. At June 30, 2020, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

**Note 10 - Deficit Fund Balance**

As of June 30, 2020, the Food Service fund (a nonmajor fund) had a deficit fund balance in the amount of \$4,079. Management and the School Board will review and make an operating transfer as needed to the food service fund to supplement operations as needed.

**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 - Commitments and Contingencies**

The School District had remaining contractual commitments for construction and engineering costs not yet incurred as of June 30, 2020 related to the 6<sup>th</sup> through 12<sup>th</sup> grade building project, in the approximate amount of \$9,308,000 funded by the issuance of general obligation bonds. Subsequent to year end the School District approved the purchase of a video security system related to the building in the approximately amount of \$112,000.

During 2020, the world-wide coronavirus pandemic impacted national and global economies. The School District is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the School District is not known.

**Note 13 - Subsequent Events**

In November 2020, the School District received approximately \$269,000 from an estate to be used for scholarships to graduating high school students.



Required Supplementary Information  
June 30, 2020

## Lemmon School District No. 52-4

Lemmon School District No. 52-4  
Budgetary Comparison Schedule – General Fund  
Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 1,150,300	\$ 1,150,300	\$ 1,162,018	\$ 11,718
1120 Prior years' ad valorem taxes	-	-	6,186	6,186
1140 Gross receipts taxes	130,000	130,000	149,930	19,930
1190 Penalties and interest on taxes	3,200	3,200	4,829	1,629
1300 Tuition and fees				
1310 Out of state tuition	11,000	11,000	12,000	1,000
1500 Earnings on investments and deposits	25,000	25,000	23,370	(1,630)
1700 Cocurricular activities				
1790 Other pupil activity income	23,550	23,550	20,655	(2,895)
1900 Other revenue from local sources				
1920 Contribution and donations	-	-	13,831	13,831
1970 Charges for services	2,000	2,000	1,413	(587)
1990 Other	32,000	32,000	43,225	11,225
2000 Revenue from intermediate sources				
2100 County source				
2110 County apportionment	18,000	18,000	12,155	(5,845)
2120 Lease of county-owned land	-	-	1,258	1,258
2200 Revenue in lieu of taxes	4,000	4,000	3,660	(340)
3000 Revenue from state source				
3100 Grant-in-aid				
3110 Unrestricted grants-in-aid	817,000	817,000	815,649	(1,351)
3120 Restricted grant-in-aid	-	-	348	348
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	40,000	40,000	15,806	(24,194)
4140 Restricted grants-in-aid received directly from federal government	7,674	7,674	-	(7,674)
4150-4199 Restricted grants-in-aid received from federal government through the state	151,478	151,478	137,704	(13,774)
4200 Revenue in lieu of taxes (PILT)	129,000	129,000	128,043	(957)
Total revenue	<u>2,544,202</u>	<u>2,544,202</u>	<u>2,618,079</u>	<u>73,877</u>

Lemmon School District No. 52-4  
 Budgetary Comparison Schedule – General Fund  
 Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular program				
1110 Elementary	569,200	569,200	527,049	42,151
1120 Middle school	131,220	131,220	137,288	(6,068)
1130 High school	440,476	440,476	455,426	(14,950)
1190 Other regular programs	107,606	107,606	14,720	92,886
1200 Special programs				
1270 Educationally deprived	69,807	88,100	75,014	13,086
2000 Support services				
2100 Pupils				
2120 Guidance	50,502	51,002	41,375	9,627
2130 Health	5,790	5,790	3,820	1,970
2200 Instructional staff				
2210 Improvement of instruction	82,822	96,107	62,652	33,455
2220 Educational media	38,540	38,540	23,889	14,651
2300 General administration				
2310 Board of Education	71,900	71,900	66,291	5,609
2320 Executive administration	151,525	151,525	134,130	17,395
2400 School administration				
2410 Office of the Principal	223,930	223,930	220,309	3,621
2490 Other	100	100	150	(50)
2500 Business				
2520 Fiscal services	98,670	98,670	94,597	4,073
2540 Operation and maintenance of plant	621,770	621,770	452,993	168,777
2550 Pupil transportation	182,860	182,860	121,615	61,245
2560 Food service	7,362	7,362	4,204	3,158
3000 Community services				
3900 Other	1,000	1,000	-	1,000
4000 Nonprogrammed charges				
4600 Insurance costs	8,400	8,400	550	7,850
4900 Other nonprogrammed costs	1,500	1,500	-	1,500
6000 Cocurricular activities				
6100 Male activities	96,335	96,335	84,026	12,309
6200 Female activities	49,395	49,395	43,094	6,301
6900 Combined activities	69,580	69,580	50,289	19,291
7000 Contingencies	115,000	115,000	-	115,000
Total expenditures	<u>3,195,290</u>	<u>3,227,368</u>	<u>2,613,481</u>	<u>613,887</u>
Revenues over (under) expenditures	<u>(651,088)</u>	<u>(683,166)</u>	<u>4,598</u>	<u>687,764</u>

Lemmon School District No. 52-4  
 Budgetary Comparison Schedule – General Fund  
 Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Other financing sources (uses)				
5110 Transfers in	393,506	393,506	100,000	(293,506)
5130 Sale of surplus property	700	700	1,284	584
5140 Compensation for loss of general capital assets - insurance recoveries	1,200	1,200	7,584	6,384
Total other financing sources (uses)	<u>395,406</u>	<u>395,406</u>	<u>108,868</u>	<u>(286,538)</u>
Net change in fund balance	(255,682)	(287,760)	113,466	401,226
Fund balance - June 30, 2019	<u>1,122,717</u>	<u>1,122,717</u>	<u>1,122,717</u>	<u>-</u>
Fund balance - June 30, 2020	<u>\$ 867,035</u>	<u>\$ 834,957</u>	<u>\$ 1,236,183</u>	<u>\$ 401,226</u>

Lemmon School District No. 52-4  
 Budgetary Comparison Schedule – Capital Outlay Fund  
 Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 921,275	\$ 921,275	\$ 920,032	\$ (1,243)
1120 Prior years' ad valorem taxes	-	-	3,694	3,694
1190 Penalties and interest on taxes	1,000	1,000	4,412	3,412
1900 Other revenue from local sources				
1920 Contributions and donations	-	-	16,000	16,000
1990 other	-	-	4,000	4,000
4000 Revenue from federal sources				
4150-4199 Restricted grants-in-aid received from federal government through the state	25,000	25,000	-	(25,000)
<b>Total revenue</b>	<u>947,275</u>	<u>947,275</u>	<u>948,138</u>	<u>863</u>
<b>Expenditures</b>				
1000 Instruction				
1100 Regular program				
1110 Elementary	72,500	72,500	53,297	19,203
1130 High school	87,500	87,500	36,301	51,199
2500 Support services - business				
2530 Facility construction	315,775	293,475	69,023	224,452
2540 Operation and maintenance of plant	118,400	140,700	94,832	45,868
5000 Debt services	13,100	13,100	13,085	15
<b>Total expenditures</b>	<u>607,275</u>	<u>607,275</u>	<u>266,538</u>	<u>340,737</u>
<b>Revenues over (under) expenditures</b>	<u>340,000</u>	<u>340,000</u>	<u>681,600</u>	<u>341,600</u>
<b>Other financing sources (uses)</b>				
8110 Transfers out	(340,000)	(340,000)	(100,000)	240,000
5130 Sale of surplus property	-	-	6,113	6,113
5140 Compensation for loss of general capital assets - insurance recoveries	-	-	10,425	10,425
<b>Total other financing sources (uses)</b>	<u>(340,000)</u>	<u>(340,000)</u>	<u>(83,462)</u>	<u>256,538</u>
<b>Net change in fund balance</b>	-	-	598,138	598,138
<b>Fund balance - June 30, 2019</b>	<u>1,592,800</u>	<u>1,592,800</u>	<u>1,592,800</u>	<u>-</u>
<b>Fund balance - June 30, 2020</b>	<u>\$ 1,592,800</u>	<u>\$ 1,592,800</u>	<u>\$ 2,190,938</u>	<u>\$ 598,138</u>

Lemmon School District No. 52-4  
Budgetary Comparison Schedule – Special Education Fund  
Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1100 Ad valorem taxes	\$ 502,000	\$ 456,000	\$ 536,923	\$ 80,923
1120 Prior years' ad valorem taxes	-	-	2,340	2,340
1190 Penalties and interest on taxes	500	500	3,252	2,752
1900 Other revenue from local sources				
1970 Charges for services	100	100	141	41
4000 Revenue from federal sources				
4100 Grants-in-aid				
4150-4199 Restricted grants-in-aid received from federal government through the state	83,877	83,877	63,341	(20,536)
Total revenue	<u>586,477</u>	<u>540,477</u>	<u>605,997</u>	<u>65,520</u>
Expenditures				
1200 Special program				
1220 Programs for special education	423,237	423,973	269,167	154,806
2000 Support services				
2100 Pupils				
2140 Psychological	31,500	41,691	4,009	37,682
2150 Speech pathology	65,500	68,000	46,904	21,096
2170 Student therapy services	13,000	18,000	2,658	15,342
2700 Support services - special education				
2710 Administrative costs	31,240	31,240	17,369	13,871
2740 Transportation costs	12,000	12,000	-	12,000
2760 Autism program	10,000	10,000	-	10,000
Total expenditures	<u>586,477</u>	<u>604,904</u>	<u>340,107</u>	<u>264,797</u>
Revenues over (under) expenditures	<u>-</u>	<u>(64,427)</u>	<u>265,890</u>	<u>330,317</u>
Net change in fund balance	-	(64,427)	265,890	330,317
Fund balance - June 30, 2019	<u>1,313,881</u>	<u>1,313,881</u>	<u>1,313,881</u>	<u>-</u>
Fund balance - June 30, 2020	<u>\$ 1,313,881</u>	<u>\$ 1,249,454</u>	<u>\$ 1,579,771</u>	<u>\$ 330,317</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 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. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Lemmon School District No. 52-4

Other Postemployment Benefit Schedules – Schedule of Changes in the Total OPEB Liability and Related Ratios  
June 30, 2020

Year Ending	Service Cost	Interest	Changes of assumptions or other inputs	Benefit payments	Total OPEB liability - beginning	Net change in total OPEB liability	Total OPEB liability - ending	Covered employee payroll	Total OPEB liability as a percentage of covered employee payroll
2020	\$ 6,709	\$ 412	\$ 6,981	\$ -	\$ 82,320	14,102	96,422	\$ 961,116	10.03%
2019	5,725	949	(10,059)	(9,239)	94,944	(12,624)	82,320	811,793	10.14%
2018	15,487	777	5,192	(4,221)	77,709	17,235	94,944	761,698	12.46%
2017	4,518	893	(4,626)	(12,399)	89,323	(11,614)	77,709	801,811	9.69%
2016	5,577	943	2,178	(13,718)	94,343	(5,020)	89,323	815,450	10.95%
2015	5,422	1,194	(10,578)	(21,104)	119,409	(25,066)	94,343	880,200	10.72%
2014	14,654	1,179	12,029	(26,380)	117,927	1,482	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 School 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.

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

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2019	0.0801404%	\$ (8,493)	\$ 1,703,948	-0.50%	100.09%
SDRS	6/30/2018	0.0814764%	\$ (1,901)	\$ 1,693,818	-0.11%	100.02%
SDRS	6/30/2017	0.0853179%	\$ (7,743)	\$ 1,733,482	-0.45%	100.10%
SDRS	6/30/2016	0.0791318%	\$ 267,299	\$ 1,504,689	17.76%	96.89%
SDRS	6/30/2015	0.0794857%	\$ (337,121)	\$ 1,454,787	-23.17%	104.10%
SDRS	6/30/2014	0.0929221%	\$ (669,466)	\$ 1,625,033	-41.20%	107.30%

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

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

Pension Plan	Fiscal Year Ending	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	6/30/2020	\$ 104,356	\$ 104,356	\$ -	\$ 1,739,259	6.00%
SDRS	6/30/2019	\$ 102,237	\$ 102,237	\$ -	\$ 1,703,948	6.00%
SDRS	6/30/2018	\$ 101,629	\$ 101,629	\$ -	\$ 1,693,818	6.00%
SDRS	6/30/2017	\$ 104,009	\$ 104,009	\$ -	\$ 1,733,482	6.00%
SDRS	6/30/2016	\$ 90,282	\$ 90,282	\$ -	\$ 1,504,689	6.00%
SDRS	6/30/2015	\$ 87,287	\$ 87,287	\$ -	\$ 1,454,787	6.00%

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

**Changes of Benefit Terms**

No significant changes.

**Changes of Assumptions**

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that, if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2018 and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018 and is 1.88% as of June 30, 2019.

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

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



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

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, 2020, 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 February 2, 2021.

**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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 2020-001 and 2020-002 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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 distribution is not limited.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the printed name of the firm.

Aberdeen, South Dakota  
February 2, 2021

**Financial Statement Findings**

**2020-001 Segregation of Duties**

**Material Weakness**

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

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

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

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

*Recommendation:* While it is recognized that the number of office staff may not be large enough to permit an adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the School Board exercise adequate oversight of the accounting function.

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

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

**Material Weakness**

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

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

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

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

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

*Management's Response:* The Lemmon School District requested the auditor's assistance in preparation of the financial statements and the related footnotes due to cost/benefit and other considerations. At times, we acknowledge the auditors identify material audit adjustments and accept the risk associated with these conditions.

**2019-001 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 2020-001.

**2019-002 Preparation of Financial Statements, Footnotes, and Audit Journal Entries**

**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. As part of the financial statement preparation process, 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 part of 2020-002.