

NORTHEAST TECHNICAL HIGH SCHOOL
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2019

QUAM, BERGLIN & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

**NORTHEAST TECHNICAL HIGH SCHOOL
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2019**

Executive Committee Members

Bert Falak

Jeff Danielsen

Gary Leighton

Board Members

Angela Heyn

William Becking

Doug Arndt

Lynn Popham

Nicky Watson

Joe Johnston

Tammy Rieber

Tom Linngren

Stuart Stein

Josie Ries

Office Manager

Karen Beynon

Director

Bert Falak

**NORTHEAST TECHNICAL HIGH SCHOOL
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QUAM, BERGLIN & POST, P.C.

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INDEPENDENT AUDITOR'S REPORT

School Board
Northeast Technical High School
Codington 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 Northeast Technical High School, Codington County, South Dakota (School), as of June 30, 2019 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Northeast Technical High School's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 of 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 School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northeast Technical High School as of June 30, 2019, and the respective changes in financial position and, where applicable cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules and the Pension Schedules 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 the 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 the 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2019, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Quam, Berglin & Post P.C.

Quam, Berglin & Post, P.C.
Certified Public Accountants

October 16, 2019

**NORTHEAST TECHNICAL HIGH SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2019**

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS:	
Cash and Cash Equivalents	\$ 862,329.50
Accounts Receivable	82.85
Due from Other Governments	14,395.00
Net Pension Asset	861.49
Capital Assets:	
Other Capital Assets, Net of Depreciation	<u>266,027.26</u>
TOTAL ASSETS	<u>1,143,696.10</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Pension Related Deferred Outflows	<u>299,967.93</u>
LIABILITIES :	
Accrued Wages & Benefits	113,482.06
Noncurrent Liabilities:	
Due in One Year	798.00
Due in More than One Year	<u>1,596.00</u>
TOTAL LIABILITIES	<u>115,876.06</u>
DEFERRED INFLOWS OF RESOURCES:	
Pension Related Deferred Inflows	<u>72,910.20</u>
NET POSITION:	
Net Investment in Capital Assets	266,027.26
Restricted for:	
Capital Outlay	385,441.10
SDRS Pension	227,919.22
Unrestricted	<u>375,490.19</u>
TOTAL NET POSITION	<u>\$ 1,254,877.77</u>

The notes to the financial statements are an integral part of this statement.

**NORTHEAST TECHNICAL HIGH SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities
Primary Government:				
Governmental Activities:				
Instruction	\$ 1,140,265.03	\$	\$	\$ (1,140,265.03)
Support Services	293,186.63	1,181,647.41	112,163.52	1,000,624.30
Cocurricular Activities	<u>5,957.30</u>			<u>(5,957.30)</u>
Total Governmental Activities	<u>1,439,408.96</u>	<u>1,181,647.41</u>	<u>112,163.52</u>	<u>(145,598.03)</u>
Total Primary Government	<u>\$ 1,439,408.96</u>	<u>\$ 1,181,647.41</u>	<u>\$ 112,163.52</u>	<u>(145,598.03)</u>
		General Revenues:		
		Unrestricted Investment Earnings		1,846.66
		Other General Revenues		<u>138,018.00</u>
		Total General Revenues and Loss on General Capital Assets		<u>139,864.66</u>
		Change in Net Position		(5,733.37)
		Net Position - Beginning		<u>1,260,611.14</u>
		NET POSITION - ENDING		<u>\$ 1,254,877.77</u>

The notes to the financial statements are an integral part of this statement.

**NORTHEAST TECHNICAL HIGH SCHOOL
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and Cash Equivalents	\$ 474,494.40	\$ 387,835.10	\$ 862,329.50
Accounts Receivable	82.85		82.85
Due from Other Governments	<u>14,395.00</u>	<u> </u>	<u>14,395.00</u>
TOTAL ASSETS	<u>\$ 488,972.25</u>	<u>\$ 387,835.10</u>	<u>\$ 876,807.35</u>
 LIABILITIES AND FUND BALANCES:			
Liabilities:			
Contracts Payable	\$ 88,776.10	\$	\$ 88,776.10
Payroll Deductions and Withholdings and Employer Matching Payable	<u>24,705.96</u>	<u> </u>	<u>24,705.96</u>
Total Liabilities	<u>113,482.06</u>	<u> </u>	<u>113,482.06</u>
 Fund Balances:			
Restricted			
Capital Outlay		387,835.10	387,835.10
Assigned-Subsequent Year's Budget	38,400.00		38,400.00
Unassigned	<u>337,090.19</u>	<u> </u>	<u>337,090.19</u>
Total Fund Balances	<u>375,490.19</u>	<u>387,835.10</u>	<u>763,325.29</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 488,972.25</u>	 <u>\$ 387,835.10</u>	 <u>\$ 876,807.35</u>

The notes to the financial statements are an integral part of this statement.

**NORTHEAST TECHNICAL HIGH SCHOOL
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

Total Fund Balances - Governmental Funds		\$ 763,325.29
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is:</p>		
	\$ 770,650.12	
Less accumulated depreciation:	<u>(504,622.86)</u>	266,027.26
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consists of:</p>		
Capital Lease		(2,394.00)
<p>Net Pension Asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.</p>		
		861.49
<p>Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.</p>		
		299,967.93
<p>Pension related deferred inflows are components of pension liability and therefore are not reported in the funds</p>		
		<u>(72,910.20)</u>
Net Position - Governmental Funds		<u>\$ 1,254,877.77</u>

The notes to the financial statements are an integral part of this statement.

**NORTHEAST TECHNICAL HIGH SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Tuition and Fees:			
Tuition From Other State LEA's	\$ 1,181,647.41	\$	\$ 1,181,647.41
Earnings on Investments and Deposits	923.26	923.40	1,846.66
Other Revenue from Local Sources:			
Other		135,900.00	135,900.00
Revenue from Federal Sources:			
Grants-in-Aid:			
Federal Government Through the State	112,163.52		112,163.52
Total Revenue	<u>1,294,734.19</u>	<u>136,823.40</u>	<u>1,431,557.59</u>
Expenditures:			
Instruction	995,978.70	37,228.70	1,033,207.40
Support Services:			
Instructional Staff:			
Improvement of Instruction	1,534.46		1,534.46
Support Services - General Administration:			
Board of Education	16,366.83		16,366.83
Executive Administration	111,654.28	102.84	111,757.12
Support Services - Business:			
Fiscal Services	48,450.31		48,450.31
Facilities Acquisition and Construction		13,795.32	13,795.32
Operation and Maintenance of Plant	32,647.65	62,825.33	95,472.98
Other		798.00	798.00
Cocurricular Activities:			
Combined Activity	5,957.30		5,957.30
Debt Service		798.00	798.00
Capital Outlay	74,429.00		74,429.00
Total Expenditures	<u>1,287,018.53</u>	<u>115,548.19</u>	<u>1,402,566.72</u>
Excess of Revenue Over (Under)			
Expenditures	<u>7,715.66</u>	<u>21,275.21</u>	<u>28,990.87</u>
Other Financing Sources:			
Sale of Surplus Property	<u>2,118.00</u>		<u>2,118.00</u>
Net Change in Fund Balance	9,833.66	21,275.21	31,108.87
Fund Balance - July 1	<u>365,656.53</u>	<u>366,559.89</u>	<u>732,216.42</u>
FUND BALANCE - JUNE 30	<u>\$ 375,490.19</u>	<u>\$ 387,835.10</u>	<u>\$ 763,325.29</u>

The notes to the financial statements are an integral part of this statement.

**NORTHEAST TECHNICAL HIGH SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Net Change in Fund Balances - Total Governmental Funds \$ 31,108.87

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense:

Capital Outlay	\$ 74,429.00	
Depreciation Expense	<u>(50,116.14)</u>	24,312.86

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	798.00
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Changes in the pension related deferred outflows/inflows are direct components of pension liability(asset) and are not reflected in the governmental funds.	<u>(61,953.10)</u>
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Change in Net Position of Governmental Activities \$ (5,733.37)

The notes to the financial statements are an integral part of this statement.

**NORTHEAST TECHNICAL HIGH SCHOOL
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019**

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	\$ 28,454.46
Accounts Receivable	<u>8,403.90</u>
 TOTAL ASSETS	 <u><u>36,858.36</u></u>
 LIABILITIES:	
Amounts Held for Others	<u>36,858.36</u>
 TOTAL LIABILITIES	 <u><u>\$ 36,858.36</u></u>

The notes to the financial statements are an integral part of this statement.

NORTHEAST TECHNICAL HIGH SCHOOL NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School conform to generally accepted accounting principles applicable to government entities of the United States of America.

a. Financial Reporting Entity

The reporting entity of Northeast Technical High School (School) 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.

The School is a joint venture that is composed of nine school districts. These member school districts are Castlewood, Florence, Grant-Duel, Great Plains, Hamlin, Henry, Summit, Watertown and Waverly. The School was formed for the purpose of providing vocational education services to the member school districts.

The governing board is composed of three Watertown school board members and one school board member from each of the remaining school districts. This governing board is advised by an executive committee that is composed of the School's director, the superintendent of the Watertown School District, and one other superintendent of a member school district that is appointed by the governing board.

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School's government-wide financial statements include only governmental activities.

The Statement of Net Position reports all financial and capital resources in a net position form (assets plus deferred outflows of resources minus liabilities plus 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'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 or 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, liabilities, fund equity, revenues, and expenditures/expenses. 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 or it meets the following criteria:

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

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

Governmental Funds:

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

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, plan or equipment, textbooks and instructional software. This fund is financed by grants and assessments charged to the member school districts. This is a major fund.

Fiduciary Funds:

Fiduciary Funds consists of the following sub -categories and are never considered to be major funds:

***Agency Funds** - Agency funds are used to account for resources held by the School 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 maintains agency funds for the purpose of accounting for the assets held in a trustee capacity for various classes and clubs within the School. The agency funds are used to account for the revenues and expenditures that are incidental to each class and club.*

c. 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, the 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 fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the fiduciary fund types.

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 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 is 60 days. The revenues which were accrued at June 30, 2019 are restricted grants-in-aid received from the State, other State revenue, and restricted grants-in-aid received from Federal government through the State.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Expenditures generally are recognized when the related fund liability is incurred.

All 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.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a nonspendable fund balance classification account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

d. Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pool, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months.

e. Capital Assets

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

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

Government-Wide Financial Statements

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

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

The balance of capital assets as of June 30, 2019 for governmental activities is valued at original cost.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	ALL	NA	NA
Improvements	\$ 15,000	Straight Line	10-50 Years
Buildings	50,000	Straight Line	50 Years
Machinery and Equipment	5,000	Straight Line	2 -20 Years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition.

f. 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 resources are reported as liabilities in the government-wide statements. The School currently has a capital lease for long-term liabilities.

g. 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'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.

h. Equity Classifications

Government-wide Financial Statements:

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

1. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – all other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned, or Unassigned components. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

i. Application of Net Position:

It is the School'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.

j. 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 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 purpose 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, which is the School Board, 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 or committed. Fund Balance may be assigned by the School Board.

Unassigned- includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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

The Government does not have a formal minimum fund balance policy.

**NORTHEAST TECHNICAL HIGH SCHOOL
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Total Governmental Funds</u>
Fund Balances:			
<i>Restricted for:</i>			
Capital Outlay	\$	\$ 387,835.10	\$ 387,835.10
<i>Assigned to:</i>			
Subsequent Year's Budget	38,400.00		38,400.00
<i>Unassigned</i>	<u>337,090.19</u>		<u>337,090.19</u>
Total Fund Balances	<u>\$ 375,490.19</u>	<u>\$ 387,835.10</u>	<u>\$ 763,325.29</u>

k. Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension 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 contributions and net pension asset are recognized on an accrual basis of accounting.

NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The School 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's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 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.

Investments - In general, SDCL 4-5-6 permits school district funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government, either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments to 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.

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer.

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.

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 investments to the fund making the investment, except the Special Education Fund whose income is credited to the General Fund. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

As of June 30, 2019, the School did not have any investments.

NOTE 3 - RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School expects all receivables to be collected within one year. All receivables are considered collectible; therefore, no allowances for estimated uncollectibles have been established.

NOTE 4 -INVENTORY

Inventory held for consumption is stated at cost.

Inventory for resale is stated at the lower of cost or market. The cost valuation method is first in, first out (FIFO).

In the government-wide financial statements and fund financial statements, inventory items are recorded as expenditures at the time of purchase.

No material amounts of inventory were on hand as of June 30, 2019 in the governmental funds.

NOTE 5 - CHANGES IN CAPITAL ASSETS

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

Primary Government	<u>Balance 06/30/18</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/19</u>
Governmental Activities:				
Capital Assets, not depreciated				
Land	\$ _____	\$ _____	\$ _____	\$ _____
Capital Assets, depreciated:				
Machinery & Equipment	<u>703,770.76</u>	<u>74,429.00</u>	<u>(7,549.64)</u>	<u>770,650.12</u>
Total Capital Assets, depreciated	<u>703,770.76</u>	<u>74,429.00</u>	<u>(7,549.64)</u>	<u>770,650.12</u>
Less: Accumulated Depreciation				
Machinery & Equipment	<u>(462,056.36)</u>	<u>(50,116.13)</u>	<u>7,549.64</u>	<u>(504,622.86)</u>
Total Accumulated Depreciation	<u>(462,056.36)</u>	<u>(50,116.13)</u>	<u>7,549.64</u>	<u>(504,622.86)</u>
Total Capital Assets, being depreciated, net	<u>241,714.40</u>	<u>24,312.87</u>	<u>_____</u>	<u>266,027.26</u>
Governmental Activities Capital Assets, net	<u>\$ 241,714.40</u>	<u>\$ 24,312.87</u>	<u>\$ _____</u>	<u>\$ 266,027.26</u>
**Depreciation expense was charged to functions as follows:				
Governmental Activities				\$ 45,104.52
Instruction				5,011.61
Support Services				<u>50,116.13</u>
Total Depreciation Expense - Governmental Activities				<u>\$ 50,116.13</u>

NOTE 6 - LONG-TERM LIABILITIES

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

Capital (Financing) Lease	
Copier Lease with Anacon Leasing, Inc. for a period of	
60 months, maturing in July, 2022. Payments from Capital Outlay	\$ 2,394.00

NOTE 7 - RESTRICTED NET POSITION

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

<u>Major Purposes:</u>	<u>Restricted by</u>	<u>Amount</u>
Capital Outlay Purposes	Law	\$ 385,441.10
SDRS Pension Purposes	Law	<u>227,919.22</u>
Total Restricted Net Position		<u>\$ 613,360.32</u>

NOTE 8 - PENSION PLAN

Plan Information:

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 South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. 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 retirements 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 long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:

- o The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than A restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2019, 2018, and 2017 were \$46,805.03, \$46,074.69, and \$44,275.22, respectively, equal to the required contributions each year.

Pension Assets, Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2018, SDRS is 100.02% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the School as of June 30, 2019 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 4,518,829.67
Less proportionate share of net pension benefits	<u>4,519,691.16</u>
Proportionate share of net pension liability (asset)	<u>\$ (861.49)</u>

At June 30, 2019, the School reported a liability (asset) of \$(861.49) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2018 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2018, the School's proportion was .03693850% which is an increase (decrease) of .0006200% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the School recognized pension expense (reduction of pension expense) of \$61,953.10. At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 32,561.20	\$
Changes in assumption	218,717.55	
Net difference between projected and actual earnings on pension plan investments		65,108.65
Changes in proportion and difference between District contributions and proportionate share of contributions	1,884.14	7,801.55
District contributions subsequent to the measurement date	<u>46,805.03</u>	
TOTAL	<u>\$ 299,967.92</u>	<u>\$ 72,910.20</u>

\$46,805.03 reported as deferred outflow of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:

2020	\$ 117,468.05
2021	87,386.20
2022	(11,461.62)
2023	<u>(7,222.52)</u>
TOTAL	<u>\$ 186,170.11</u>

Actuarial Assumptions:

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

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

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

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

weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	<u>2.0%</u>	0.7%
Total	<u>100.0%</u>	

Discount Rate:

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

Sensitivity of 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's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 650,667.51	\$ (861.49)	\$ (530,844.98)

Pension Plan Fiduciary Net Position:

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

NOTE 9 - RISK MANAGEMENT

The School is exposed to various risks of loss related to tort, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2019, the School managed its risks as follows:

Employee Health Insurance

The school participates in the Watertown School District's group health self-insurance fund. The fund pays for health and dental claims of employees and their covered dependents. Premiums paid to the fund are actuarially determined, and they cover the cost of processed claims, administrative costs, network participation fees, and the cost of individual stop-loss insurance at the coverage level of \$100,000 per covered individual per year with an additional aggregating specific of \$150,000. No aggregate stop-loss insurance was purchased during the year ended June 30, 2019.

The school 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 the liability coverage during the past three years.

Liability Insurance

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

Worker's Compensation

The School purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The School has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. Any claims for unemployment benefits will be paid by the General Fund.

During the year ended June 30, 2019, no claims for unemployment benefits were paid. At June 30, 2019, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

NOTE 10 - LITIGATION

At June 30, 2019, the School was not involved in any litigation.

**REQUIRED SUPPLEMENTARY INFORMATION
NORTHEAST TECHNICAL HIGH SCHOOL
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Tuition and Fees:				
Tuition From Other State LEA's	\$ 1,113,259.00	\$ 1,113,259.00	\$ 1,181,647.41	\$ 68,388.41
Earnings on Investments and Deposits	800.00	800.00	923.26	123.26
Revenue from Federal Sources:				
Grants-in-Aid:				
Federal Government Through the State	<u>84,802.00</u>	<u>84,802.00</u>	<u>112,163.52</u>	<u>27,361.52</u>
Total Revenue	<u>1,198,861.00</u>	<u>1,198,861.00</u>	<u>1,294,734.19</u>	<u>95,873.19</u>
Expenditures:				
Instruction	1,080,550.00	1,110,322.00	1,070,407.70	39,914.30
Support Services:				
Instructional Staff:				
Improvement of Instruction	7,184.00	7,184.00	1,534.46	5,649.54
Support Services - General Administration:				
Board of Education	22,865.00	22,865.00	16,366.83	6,498.17
Executive Administration	114,214.00	114,214.00	111,654.28	2,559.72
Support Services - Business:				
Fiscal Services	50,389.00	50,389.00	48,450.31	1,938.69
Operation and Maintenance of Plant	37,221.00	37,221.00	32,647.65	4,573.35
Cocurricular Activities:				
Combined Activities	7,986.00	7,986.00	5,957.30	2,028.70
Contingencies	<u>2,000.00</u>	<u>2,000.00</u>	<u>2,000.00</u>	<u>2,000.00</u>
Total Expenditures	<u>1,322,409.00</u>	<u>1,352,181.00</u>	<u>1,287,018.53</u>	<u>65,162.47</u>
Excess of Revenue Over (Under)				
Expenditures	<u>(123,548.00)</u>	<u>(153,320.00)</u>	<u>7,715.66</u>	<u>161,035.66</u>
Other Financing Sources:				
Sale of Surplus Property	<u> </u>	<u> </u>	<u>2,118.00</u>	<u>2,118.00</u>
Net Change in Fund Balance	(123,548.00)	(153,320.00)	9,833.66	163,153.66
Fund Balance - July 1	<u>365,656.53</u>	<u>365,656.53</u>	<u>365,656.53</u>	<u> </u>
FUND BALANCE - JUNE 30	<u>\$ 242,108.53</u>	<u>\$ 212,336.53</u>	<u>\$ 375,490.19</u>	<u>\$ 163,153.66</u>

**REQUIRED SUPPLEMENTARY INFORMATION
NORTHEAST TECHNICAL HIGH SCHOOL
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Earnings on Investments and Deposits	\$ 900.00	\$ 900.00	\$ 923.40	\$ 23.40
Other Revenue from Local Sources:				
Other	<u>133,900.00</u>	<u>\$ 133,900.00</u>	<u>135,900.00</u>	<u>2,000.00</u>
Total Revenue	<u>134,800.00</u>	<u>134,800.00</u>	<u>136,823.40</u>	<u>2,023.40</u>
Expenditures:				
Instruction:				
Regular Programs:				
High School	54,350.00	54,350.00	37,228.70	17,121.30
Support Services - General Administration:				
Executive Administration	600.00	600.00	102.84	497.16
Support Services - Business:				
Facilities Acquisition and Construction	14,000.00	14,000.00	13,795.32	204.68
Operation and Maintenance of Plant	67,850.00	67,850.00	62,825.33	5,024.67
Other			798.00	(798.00)
Debt Service			798.00	(798.00)
Total Expenditures	<u>136,800.00</u>	<u>136,800.00</u>	<u>115,548.19</u>	<u>21,251.81</u>
Excess of Revenue Over (Under)				
Expenditures	<u>(2,000.00)</u>	<u>(2,000.00)</u>	<u>21,275.21</u>	<u>23,275.21</u>
Net Change in Fund Balance	<u>(2,000.00)</u>	<u>(2,000.00)</u>	<u>21,275.21</u>	<u>23,275.21</u>
Fund Balance - July 1	<u>366,559.89</u>	<u>366,559.89</u>	<u>366,559.89</u>	
FUND BALANCE - JUNE 30	<u>\$ 364,559.89</u>	<u>\$ 364,559.89</u>	<u>\$ 387,835.10</u>	<u>\$ 23,275.21</u>

**Schedule of Required Supplementary Information
NORTHEAST TECHNICAL HIGH SCHOOL**

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

	2015	2016	2017	2018	2019
District's proportion of the net pension liability (asset)	0.0335089%	0.0357266%	0.0344822%	0.0363185%	0.0369385%
District's proportionate share of net pension liability (asset)	\$ (241,418)	\$ (151,527)	\$ 116,477	\$ (3,296)	\$ (861)
District's covered-employee payroll	\$ 586,358	\$ 653,079	\$ 655,681	\$ 737,920	\$ 767,909
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-41.17%	-23.20%	17.76%	-0.45%	-0.11%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%	104.1%	96.89%	100.10%	100.02%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of the previous fiscal year

Schedule of Required Supplementary Information
NORTHEAST TECHNICAL HIGH SCHOOL
SCHEDULE OF THE SCHOOL CONTRIBUTIONS

South Dakota Retirement System

	2014	2015	2016	2017	2018	2019
Contractually required contribution	\$ <u>35,159</u>	\$ <u>39,136</u>	\$ <u>39,341</u>	\$ <u>44,275</u>	\$ <u>46,075</u>	\$ <u>46,805</u>
Contributions in relation to the contractually required contribution	\$ <u>35,159</u>	\$ <u>39,136</u>	\$ <u>39,341</u>	\$ <u>44,275</u>	\$ <u>46,075</u>	\$ <u>46,805</u>
Contribution deficiency (excess)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
District's covered-employee payroll	\$586,358	\$ 653,079	\$ 655,681	\$ 737,920	\$767,909	\$780,080
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

**NORTHEAST TECHNICAL HIGH SCHOOL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund
And for each major Special Revenue Fund with a legally required budget**

NOTE 1 - BUDGET AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular board meeting in May of each year the 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 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 board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the 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 the 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 board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and each major Special Revenue Fund.
11. Budgets for the General Fund and each major Special Revenue Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NOTE 2 – GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services-Business/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

QUAM, BERGLIN & POST, P.C.

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ELK POINT, SOUTH DAKOTA 57025

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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

School Board
Northeast Technical High School
Codington 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 the Northeast Technical High School, Codington County, South Dakota (School), as of June 30, 2019 and for the year then ended, and the related notes to the financial statements, which collectively comprise Northeast Technical High School's basic financial statements and have issued our report thereon dated October 16, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northeast Technical High School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northeast Technical High School's internal control. Accordingly, we do not express an opinion on the effectiveness of Northeast Technical High School'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Northeast Technical High School's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings that we

consider to be significant deficiencies. We consider the deficiency described in the accompanying Schedule of Current Audit Findings as item 2019-001 to be a significant deficiency.

Compliance and Other Matters

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

School District's Response to Findings

Northeast Technical High School's response to the findings identified in our audit is described in the accompanying Schedule of Current Audit Findings. The School'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 Northeast Technical High School'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.



Quam, Berglin & Post, P.C.
Certified Public Accountants

October 16, 2019

**NORTHEAST TECHNICAL HIGH SCHOOL
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
JUNE 30, 2019**

PRIOR AUDIT FINDINGS:

Audit Finding Number 2018-001:

A significant deficiency was reported for a lack of segregation of duties. This comment results from the size of the school, which precludes staffing at a level sufficient to provide an ideal environment for internal control. This finding has not been corrected and is being restated as Audit Finding #2019-001.

CURRENT AUDIT FINDINGS:

Internal Control-Related Finding-Significant Deficiency:

Audit Finding Number 2019-001: There is a significant deficiency resulting from lack of segregation of duties for revenues and expenses.

Criteria:

In order to achieve proper internal control, it is necessary to have segregation of duties provided between performance, review and record keeping of the tasks related to the revenues. Lack of this segregation of duties could adversely affect the organization's ability to record, process, summarize and report financial data consistent with management assertions.

Condition, Cause and Effect:

The size of the accounting staff employed by the entity precludes an adequate segregation of duties.

Recommendation:

We recommend that Northeast Technical High School's officials be cognizant of this lack of segregation of duties and attempt to provide compensating controls whenever, and wherever, practical.

Corrective Action Plan:

Bert Falak, Director for Northeast Technical High School, is the contact person responsible for the corrective action plan for this comment. The Board of Directors is aware of this problem, which is a result of the size of the entity and precludes staffing at a level sufficient to provide an ideal environment for internal controls. The Board of Directors has prepared a response to this finding, shown on the following page.



CORRECTIVE PLAN OF ACTION
June 30, 2019

Northeast Technical High School has considered the lack of segregation of duties. At this time, it is not cost effective for the Northeast Technical High School to hire the additional staff needed to achieve segregation of duties. Alternate procedures have been implemented by the Northeast Technical High School to decrease the likelihood that financial data is adversely affected.


Office Manager


Director