

Financial Statements
June 30, 2025

Watertown School District No. 14-4

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Independent Auditor's Report

To the School Board
Watertown School District No. 14-4
Watertown, South Dakota

Report on the Audit of the Financial Statements

Qualified, Unmodified, and Disclaimer of Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Watertown School District No. 14-4 (the School District), as of and for the year ended June 30, 2025, 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.

Disclaimer of Opinion on the Discretely Presented Component Unit

We do not express an opinion on the accompanying financial statements of the discretely presented component unit of the School District. Because of the significance of the matter described in the Basis for Disclaimer of Opinion on the Discretely Presented Component Unit section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit.

Qualified Opinions on the Aggregate Remaining Fund Information and Governmental Activities

In our opinion, except for the effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate remaining fund information and governmental activities of the School District, as of June 30, 2025, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on the Business-Type Activities and Each Major Fund

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the School District, as of June 30, 2025, 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.

Basis for Disclaimer of Opinion on the Discretely Presented Component Unit

The financial statements of the Lake Area Technical College Foundation have not been audited, and we were not engaged to audit the Lake Area Technical College Foundation's financial statements as part of our audit of the School District's basic financial statements. The Lake Area Technical College Foundation's financial activities, excluding the required financial statement footnotes, are included in the School District's basic financial statements as a discretely presented component unit and comprise approximately \$11,362,000 of assets, \$448,000 of liabilities, and \$10,914,000 of net position.

Basis for Qualified and Unmodified Opinions

We conducted our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Watertown School District No. 14-4 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Matter Giving Rise to Qualified Opinions on the Aggregate Remaining Fund Information and Governmental Activities

The financial statements of the Arrow Education Foundation have not been audited, and we were not engaged to audit the Arrow Education Foundation's financial statements as part of our audit of the School District's basic financial statements. The Arrow Education Foundation's financial activities, excluding the required financial statement footnotes, are included in the School District's basic financial statements as a blended component unit presented as a special revenue fund and represent approximately 34%, 40%, and 4% of the assets, net position, and revenues, respectively, of the School District's aggregate remaining fund information. The Arrow Education Foundation's financial activities, excluding the required financial statement footnotes, being included in the School District's basic financial statements as a blended component unit presented as a special revenue fund, therefore, also are included within the governmental activities and represent approximately 2%, 3%, and 1% of the assets, net position, and revenues, respectively, of the School District's governmental activities.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Watertown School District No. 14-4's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Auditor's Responsibilities for the Audit of the Discretely Presented Component Unit

Our responsibility is to conduct an audit of the School District's financial statements in accordance with GAAS and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion on the Discretely Presented Component Unit section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit.

We are required to be independent of the School District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Auditor's Responsibilities for the Audit of the Governmental Activities, the Business-Type Activities, Each Major Fund, and the Aggregate Remaining Fund Information

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of employer's share of net pension liability (asset), schedule of employer's contributions, and schedule of changes in the School District's total OPEB liability and related ratios be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Watertown School District No. 14-4's basic financial statements. The combining nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, because of the significance of the matter disclosed in the Basis for Disclaimer of Opinion on the Discretely Presented Component Unit section of our report, it is inappropriate to, and we do not, express an opinion in relation to the basic financial statements as a whole on the supplementary information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2026, on our consideration of Watertown School District No. 14-4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Aberdeen, South Dakota
February 5, 2026

This section of the annual financial report of the Watertown School District No. 14-4 (the District) presents Management's Discussion and Analysis of the District's financial performance during the fiscal year ended on June 30, 2025. This MD&A is to be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District continues to maintain an adequate financial position in all major funds. The ending fund balance in the General Fund is 22.67% of expenditures, which is a slight decrease from the previous year. The fund balance percentage is based on the most current year's total expenditures in the fund being analyzed. Under cash limiting legislation, schools are not allowed to have their lowest month ending cash balance in an amount in excess of 25% of the prior year's expenditures. The ending fund balance of the General Fund on June 30, 2025 was \$7,154,097.
- The Capital Outlay Fund had an ending fund balance at June 30, 2025 of \$4,903,468 with revenues reported at \$8,474,904, expenditures at \$15,596,237, and net other financing sources at \$4,726,947. The expenditures over revenue and net other financing sources were anticipated as the District completed construction in progress on the Athletic Complex.
- The Special Education Fund had revenues exceed expenditures for the fiscal year, resulting in a positive financial outcome. The ending fund balance as of June 30, 2025, was \$2,959,795, reflecting an increase of \$899,496 from the prior fiscal year.
- The financial activity of the Lake Area Technical College Fund reflects an increase with an ending fund balance as of June 30, 2025 of \$6,434,955. Revenue came in at \$37,899,773 and expenditures at \$37,021,141.
- The District's net position from governmental and business-type activities increased by \$6,914,131. Resulting in a net position of \$137,826,554. The District's investment in capital and right-to-use lease assets is noted at \$134,764,875 and reflects an increase of 9.52% from June 30, 2024. These capital and right-to-use lease assets are used to provide educational services; consequently, they are not available for future spending. The District's net investment in capital and right-to-use lease assets was \$106,616,568, an increase of 8.51% from June 30, 2024.
- During the year, the District's total revenues of \$113,016,326 were composed of revenue reported under governmental activities at 93% with the other 7% as reported under business-type activities. Revenue generation was in large part contributed to property taxes and related revenue coming in at \$25,357,646 as well as State Aid and other state sourced revenue in the amount of \$29,644,754.
- The District as of June 30, 2025 had remaining commitments of approximately \$772,000 related to Phase II of the Athletic Complex project and remaining commitments of approximately \$1,325,000 related to various remodel, renovation and expansion projects at LATC and other elementary schools.

- Long term debt payable at June 30, 2025 was comprised of Capital Outlay Certificate Debt in the amount of \$25,295,000 and related unamortized premiums in the amount of \$3,135,280, as well as lease liabilities in the amount of \$281,973. Additionally, the District recognizes its Early Retirement Plan obligation as long-term debt and at year-end that payable amount is \$163,415 of which the District's General Fund and LATC Post Secondary Fund is responsible for respective payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are district-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- Governmental fund statements tell how general District services were financed in short-term as well as what remains for future spending.
- Proprietary fund statements offer short and long-term financial information about the activities that the District operates like a business.

The financial statements also include notes that provide further explanation of some of the information in the financial statements and provide additional disclosures so statement users have a complete picture of the District's financial activities and position. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements by including a comparison of the District's budget data for the year.

Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

Figure A-1

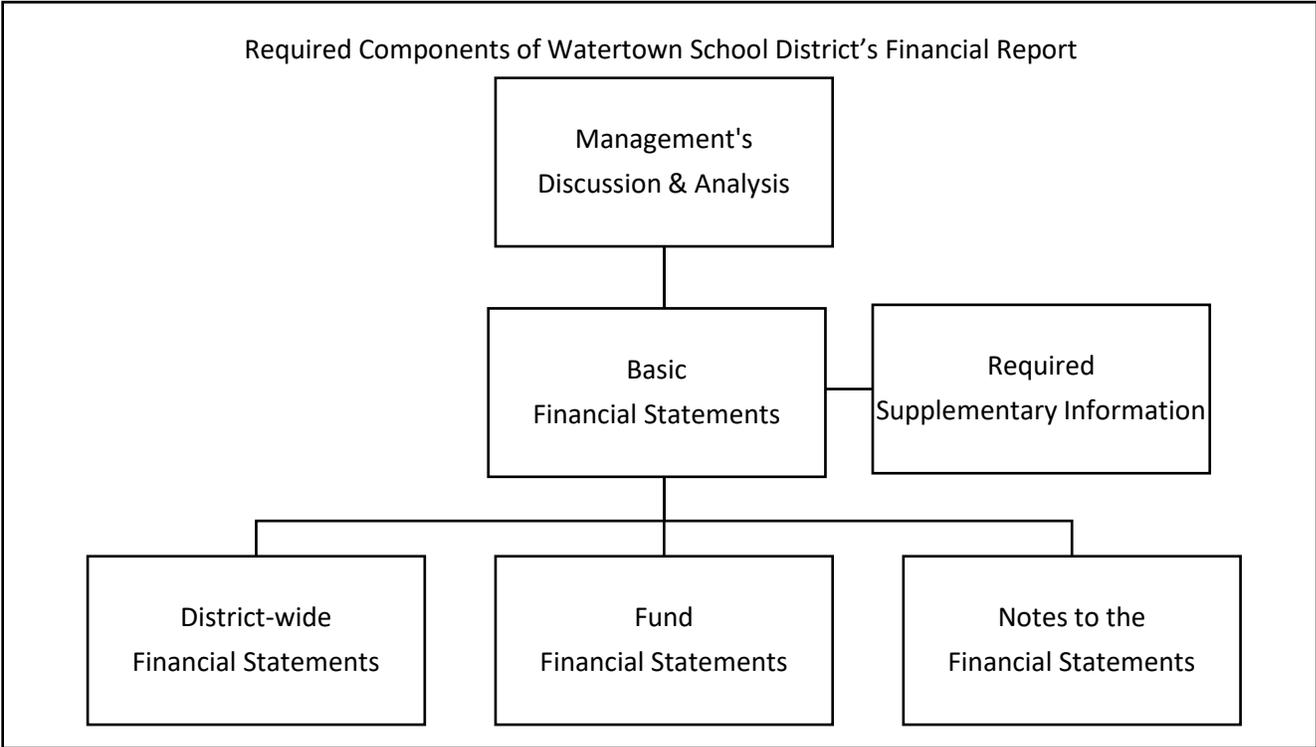


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2				
Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Governmental Funds	Fund Financial Statements	
			Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as General, Special Education and Capital Outlay	Activities the District operates similar to private businesses, such as food service and student services	Instances in which the District administers resources on behalf of someone else, such as student activities
Required financial statements changes	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Exchanges and Changes in Fund Net Positions • Statement of Cash Flows 	<ul style="list-style-type: none"> • 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	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term.	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the 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 the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-Wide statements report information about the District as a whole, using accounting methods similar to those used by the private sector. The statement of net position includes all of the District'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 District's net position and how they have changed. Net positions are the difference between the District's assets and liabilities and are one way to measure the District's financial position.

- Over time, increases and decreases in the District's net positions are an indicator of whether its financial position is improving or deteriorating.
- Additional non-financial factors, such as changes in the District's property tax base, condition of facilities and equipment, District enrollment trends and changes in the school aid funding formula from the State of South Dakota need to be considered as well.

The government-wide financial statements divide the District's activities into three categories:

- Governmental Activities include the District's instructional and support service costs in the following funds: General Fund, Capital Outlay, Special Education, Post-Secondary, Financial Aid Fund and non-major governmental funds. Debt service payments and capital equipment purchases are also accounted for in Governmental Activities. The financial support of Governmental Activities is derived mainly through property taxes, State aid, State and Federal grants, and the tuition and fees received by Lake Area Technical College.
- Business-type Activities are activities in which the District charges fees to assist with the cost of the services being provided. The Nutrition Services, Arena Concessions, Driver's Education, Pre-School Services, LATC Bookstore, LATC Food Service and LATC Educare Service are Business-type Activities of the District.
- Component Unit: The District separately reports the activity of LATC Foundation.

Fund financial statements provide more detailed information about the District's individual funds and not the District as a whole. Funds are accounting devices that the District uses to track specific sources of funding and spending for particular purposes.

- Law requires the use of certain funds and other funds are also used by the District to accommodate accounting and tracking of financial activities for varying purposes. The following are some of the funds used by the District and their general purpose.
 - General Fund - general instructional operations of the District
 - Capital Outlay Fund - capital type acquisitions (buildings, equipment & debt retirement)
 - Special Education Fund - costs related to providing instruction and support services to students with special needs
 - Post Secondary Fund - accommodates the operations of Lake Area Technical College (LATC)
 - Perkins Fund - accommodates the financial assistance provided by the Federal Government in the form of student loans for the students at LATC
 - Financial Aid Fund - accounts for student loans and college work study as provided by the Federal Government for LATC's students

The District has three types of funds:

- **Governmental Funds** - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information with the governmental fund statements that explain the relationship (or differences) between them.

The Watertown School District has designated the General Fund, Capital Outlay Fund, Special Education Fund, Post Secondary Fund and Financial Aid Fund as its major funds. Therefore, information is presented separately for these funds in the balance sheet and the statement of revenues, expenditures and changes in fund balance. Data for other governmental funds is provided in combined form.

- **Proprietary Funds** - Services for which the District charges users a fee are generally reported in proprietary funds. Proprietary funds are like government-wide statements in that they both provide short and long-term financial information.
 - **Enterprise Funds** (one type of proprietary fund) are the District's business-type activities reported on the government-wide financial statements and they provide more detail and additional information, such as cash flows.
 - **Internal Service Funds** (the other kind of proprietary fund) are used to report activities that provide supplies and services for the District's other programs and activities. The District operates the Self-funded Insurance Trust as an Internal Service Fund.
- **Component Unit Activities** – Arrow Education Foundation is an unaudited blended component unit reported separately as an independent corporation organized for the benefit of the School District. The primary focus of the Arrow Education Foundation is to support the advancement of education through scholarships and grants for costs associated with classroom activities and new program implementation for the benefit of students. The Arrow Education Foundation is financed by contributions and donations and earnings on investments.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Statement of Net Position – The District's combined net position was as follows:

Statement of Net Position							
June 30, 2025							
	Governmental		Business-type		Total		Total
	Activities		Activities				Percent
	2024-25	2023-24	2024-25	2023-24	2024-25	2023-24	Change
Current and Other Assets	\$50,792,334	\$52,311,783	\$3,137,166	\$3,195,462	\$53,929,500	\$55,507,245	-2.84%
Capital Assets (Net Depreciation)	\$134,362,172	\$122,723,103	\$402,703	\$322,561	\$134,764,875	\$123,045,664	9.52%
Total Assets	\$185,154,506	\$175,034,886	\$3,539,869	\$3,518,023	\$188,694,375	\$178,552,909	5.68%
Pension/OPEB Related Deferred Outflows	\$10,572,026	\$11,885,609	\$346,841	\$404,953	\$10,918,867	\$12,290,562	11.16%
Assets and Deferred Outflows	\$195,726,532	\$186,920,495	\$3,886,710	\$3,922,976	\$199,613,242	\$190,843,471	4.60%
Long-term Debt Outstanding	\$30,664,469	\$26,305,450	\$0	\$0	\$30,664,469	\$26,305,450	16.57%
Other Liabilities	\$10,675,523	\$13,004,108	\$583,445	\$906,231	\$11,258,968	\$13,910,339	-19.06%
Pension/OPEB and Other Deferred Inflows	\$19,636,434	\$19,483,206	\$226,817	\$232,053	\$19,863,251	\$19,715,259	.01%
Total Liabilities	\$60,976,426	\$58,792,764	\$810,262	\$1,138,284	\$61,786,688	\$59,931,048	3.10%
Net Position:							
Net Invested in Capital Assets	\$106,213,865	\$97,932,227	\$402,703	\$322,561	\$106,616,568	\$98,254,788	8.51%
Restricted	\$21,741,201	\$23,461,632	\$121,828	\$177,543	\$21,863,029	\$23,639,175	-7.51%
Unrestricted	\$6,795,040	\$6,733,872	\$2,551,917	\$2,284,588	\$9,346,957	\$9,018,460	3.64%
Total Net Position	\$134,750,106	\$128,127,731	\$3,076,448	\$2,784,692	\$137,826,554	\$130,912,423	5.28%
Liabilities, Deferred Inflows and Net Position	\$195,726,532	\$186,920,495	\$3,886,710	\$3,922,976	\$199,613,242	\$190,843,471	4.60%

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 District, consisting of Capital Outlay Certificate indebtedness, have been reported in this manner on the Statement of Net Position. The difference between the District's assets and liabilities is its net position.

The District's investment in capital and right-to-use lease assets is noted at \$134,764,875 and reflects an increase of 9.52% from June 30, 2024. These capital and right-to-use lease assets are used to provide educational services; consequently, they are not available for future spending. The District's net investment in capital and right-to-use lease assets was \$106,616,568, an increase of 8.51% from June 30, 2024. Although the investment in capital and right-to-use lease assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital and right-to-use lease assets themselves cannot be used to liquidate these liabilities.

Watertown School District No. 14-4
Management's Discussion and Analysis (Unaudited)
June 30, 2025

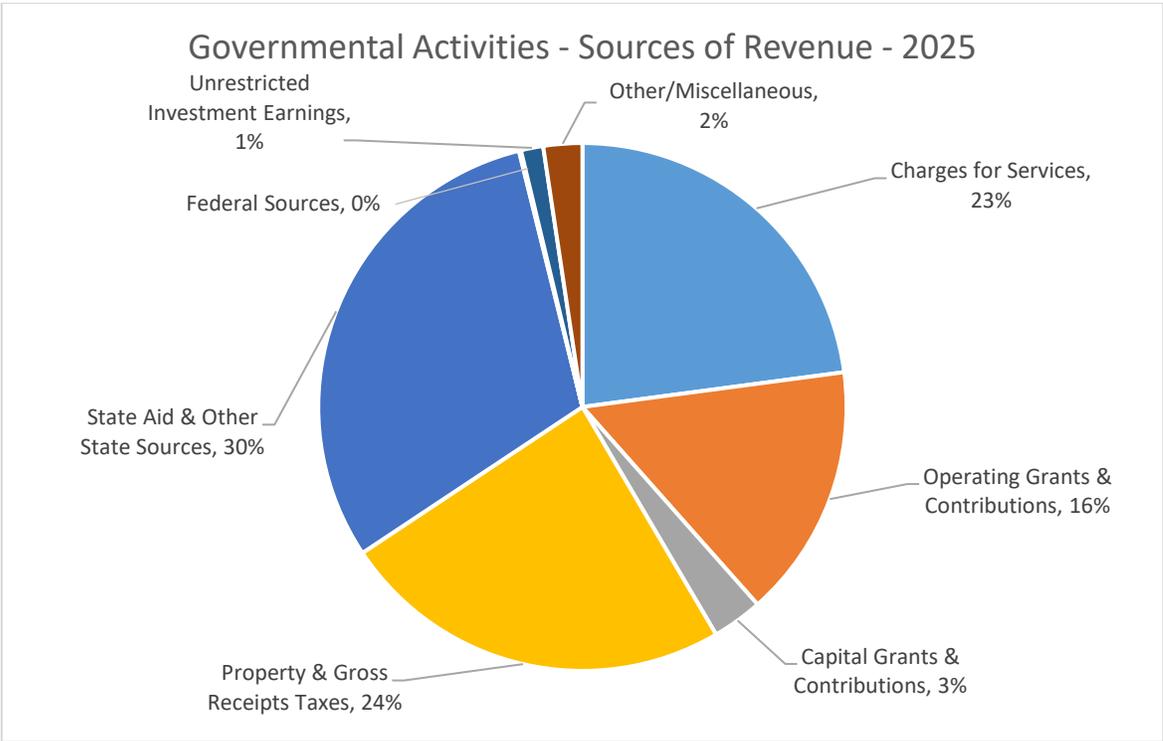
The total net position of the District increased by \$6,914,131.

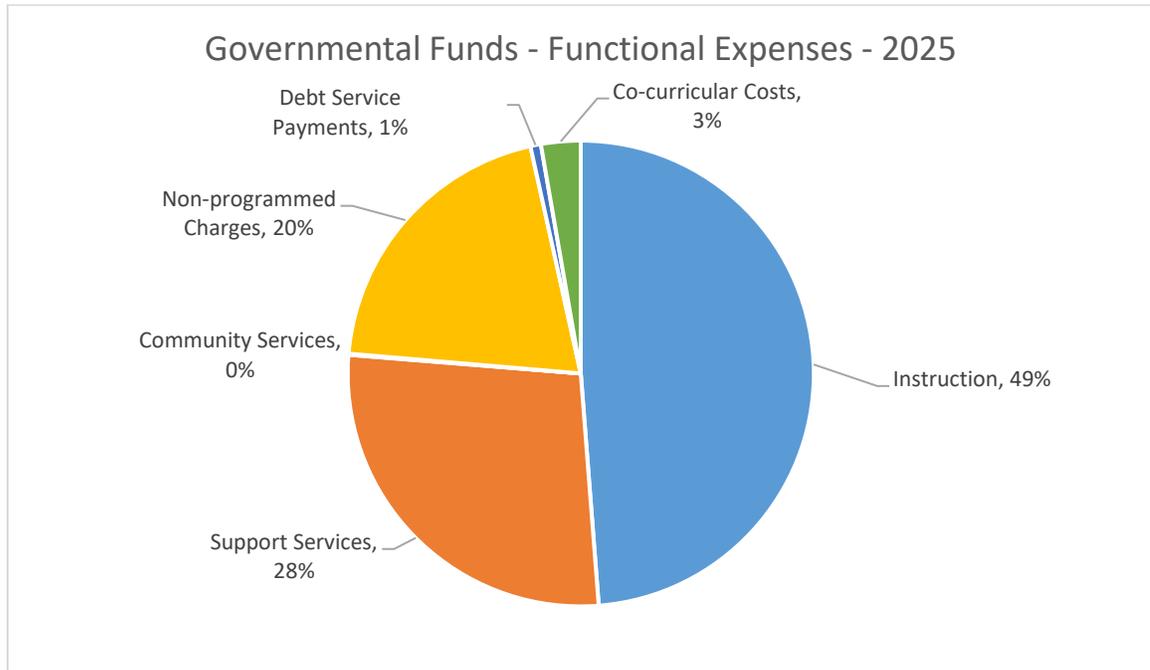
Statement of Activities – The table below represents the District's changes in Net Position for Governmental and Business-type Activities.

Changes in Watertown School District's Net Position						
	Governmental Activities 2024-25	Governmental Activities 2023-24	Business-type Activities 2024-25	Business-type Activities 2023-24	Total 2024-25	Total 2023-24
REVENUE:						
Program Revenue						
Charges for Services	\$24,070,397	\$21,837,389	\$6,707,377	\$5,801,437	\$30,777,774	\$27,638,826
Operating Grants & Contributions	\$16,362,668	\$16,570,928	\$1,095,762	\$1,108,854	\$17,458,430	\$17,679,782
Capital Grants & Contributions	\$3,249,752	\$14,522,638	\$0	\$0	\$3,249,752	\$14,522,638
General Revenue						
Property and Gross Receipts Taxes	\$25,357,646	\$24,662,497	\$0	\$0	\$25,357,646	\$24,662,497
State Aid and Other State Sources	\$32,029,077	\$30,860,224	\$0	\$0	\$32,029,077	\$2,473,767
Revenue from Federal Sources	\$129,243	\$15,102	\$0	\$0	\$129,243	\$28,401,559
Unrestricted Investment Earnings	\$1,432,729	\$1,511,474	\$80,491	\$39,298	\$1,513,220	\$1,550,772
Other/Miscellaneous	\$2,501,184	\$2,064,273	\$0	\$0	\$2,501,184	\$3,615,045
Total Revenue	\$105,132,696	\$112,044,525	\$7,883,630	\$6,949,589	\$113,016,326	\$118,994,114
EXPENSES:						
Instruction	\$48,043,131	\$45,392,535	\$0	\$0	\$48,043,131	\$45,392,535
Support Services	\$27,102,618	\$25,278,822	\$0	\$0	\$27,102,618	\$25,278,822
Community Services	\$75,171	\$0	\$0	\$0	\$75,171	\$0
Non-programmed Charges	\$19,869,292	\$18,574,505	\$0	\$0	\$19,869,292	\$18,574,505
Debt Service Payments	\$718,383	\$643,813	\$0	\$0	\$718,383	\$643,813
Co-curricular Costs	\$2,701,726	\$2,433,579	\$0	\$0	\$2,701,726	\$2,433,579
Nutrition/Food/Concessions Services	\$0	\$0	\$3,046,512	\$3,202,740	\$3,046,512	\$3,202,740
Student/Support Services	\$0	\$0	\$4,545,362	\$4,041,026	\$4,545,362	\$4,041,026
Total Expense	\$98,510,321	\$92,323,254	\$7,591,874	\$7,243,766	\$106,102,195	\$99,567,020
Changes in Net Position	\$6,622,375	\$19,721,271	\$291,756	(\$294,177)	\$6,914,131	\$19,427,094
Net Position - Beginning	\$128,127,731	\$108,406,460	\$2,784,692	\$3,078,869	\$130,912,423	\$111,485,329
Net Position - Ending	\$134,750,106	\$128,127,731	\$3,076,448	\$2,784,692	\$137,826,554	\$130,912,423

Total District revenue for the year ended June 30, 2025, was \$113,016,326, representing a 5.02% decrease from the prior fiscal year. Total expenses increased by 6.56% to \$106,102,195. Despite the decline in revenue and increased expenditures, the District's net position improved by \$6,914,131, resulting in an ending net position of \$137,826,554.

The following details provide a breakdown of revenue and expenses for the governmental funds. The graph highlights that the majority of revenue comes from four key sources: State Aid (28%), Property Taxes and Related Revenue (24%), Operating Grants and Contributions (16%), and Charges for Services (23%). Total governmental activities revenue amounted to \$105,132,696, while total expenditures were \$98,510,321, with the largest share allocated to instructional and support service costs.





Governmental Funds - The focus of the Watertown School District's governmental funds is to provide information on current revenues, expenses and balances of available resources. This information is useful in assessing the District's current financial condition and will assist in the assessment of the District's projected financial position. The changes in the reserved and unreserved fund balances serve as a useful measure of the net resources available for spending at the end of the fiscal year.

The District's governmental funds governmental activities ended the year with a combined net position of \$134,750,106. The majority of this amount is net investment in capital and right-to-use lease assets and restricted for Capital Outlay, Special Education, and Post-Secondary.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This information is in the form of budgetary comparison schedules for the District's five major funds; General Fund, Capital Outlay, Special Education, LATC Post Secondary Fund and Financial Aid Fund. These schedules are accompanied by notes to the required supplementary information which explain the schedules and contain certain other budgetary information.

The combining statements for the nonmajor funds referred to earlier are presented immediately following the required supplementary information on budgets.

CAPITAL ASSET ADMINISTRATION

Capital Assets - The School Board has established its capitalization policy with the value of equipment to be listed at \$10,000 and building improvements at \$25,000. The changes in the Capital Assets of the District were caused by several different factors: purchases, disposals and current year depreciation.

The District ended the 2025 fiscal year with an investment of \$134,362,172 in a broad range of capital and right-to-use lease assets, including land, construction work in process, buildings and improvements, and machinery and equipment. See table A-3 outlined below. This amount represents a net increase of \$11,719,210 or 9.52%.

Additional information on the School District's Capital Assets can be found in Note 4.

**Table A-3
Watertown School District 14-4 Capital Assets**

	Governmental		Business-type		Total Dollar Change	Total Percent Change
	Activities		Activities			
	2024-25	2023-24	2024-25	2023-24		
Land	\$7,919,107	\$7,422,696	\$0	\$0	\$496,411	6.69%
Construction Work in Process	\$34,662,726	\$23,971,036	\$0	\$0	\$10,691,690	44.60%
Buildings and Improvements	\$77,862,907	\$78,964,933	\$0	\$0	(\$1,102,026)	-1.40%
Machinery and Equipment	\$13,646,213	\$11,992,930	\$402,703	\$322,562	\$1,733,424	14.08%
Right to Use Lease Assets	\$271,219	\$371,508	\$0	\$0	(\$100,289)	-27.00%
	<u>\$134,362,172</u>	<u>\$122,723,103</u>	<u>\$402,703</u>	<u>\$322,562</u>	<u>\$11,719,210</u>	<u>9.52%</u>

LONG-TERM DEBT ADMINISTRATION

The District ended the 2025 fiscal year with \$28,875,668 noted as long-term debt. This is an increase of \$2,570,218. See table A-4 outlined below.

Additional information on the School District's long-term debt can be found in Note 5.

**Table A-4
Watertown School District 14-4 Outstanding Debt and Obligations**

	Governmental		Business-type		Total Dollar Change
	Activities		Activities		
	2024-25	2023-24	2024-25	2023-24	
Capital Outlay Certificates	\$25,295,000	\$21,995,000	\$0	\$0	\$3,300,000
Unamortized Premium	\$3,135,280	\$3,174,753	\$0	\$0	(\$39,473)
Lease Liability	\$281,973	\$378,877	\$0	\$0	(\$96,904)
Early Retirement	\$163,415	\$756,820	\$0	\$0	(\$593,405)
	<u>\$28,875,668</u>	<u>\$26,305,450</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,570,218</u>

FACTORS BEARING ON THE DISTRICT'S FINANCIAL FUTURE

At the time these financial statements were prepared, the District was aware of the following circumstances that could significantly affect its financial condition in the future:

- The District has an assessed value of \$3,594,554,481 for taxes payable in 2026. The State aid formulas for the General Fund and Special Education funds are such that the District does not benefit from the growth in those funds. During the 2016 legislative session, modifications were made that eliminated the taxing authority for the Pension Fund in which has been transferred into the General Fund and limited the growth in the Capital Outlay Fund to the rate of inflation and new property growth. The Capital Outlay Fund no longer receives the full benefit of the increase in property value due to reassessments. The State Legislature annually sets the maximum tax levy amounts the District can request in all taxing funds except the Debt Service Fund, which is established by an approved resolution voted upon by District patrons.

- The primary source of revenue in the General Fund is based on the calculated State Aid formula in which received a 1.25% increase in the target salary amount for the 2025-26 year. The formula is driven by enrollment (see Figure A-5). The formula calculates a target student-to-teacher ratio, based on a sliding scale by student enrollment in which the District derives from a scale of 15 to 1. The District's target number of teachers is calculated by dividing the fall enrollment by the target student-to-teacher ratio. Instructional need is then calculated by multiplying the targeted number of teachers by the statewide target for average teacher salary, and increasing that total by 29% for benefits. The total instructional need is increased by 31% to cover non-instructional costs. This category includes operating costs as well as salaries and benefits of non-instructional staff, such as administrators, counselors, librarians, and school nurses. These steps calculate the District's total need for State Aid. Local effort is applied against the total need, with the State providing any necessary funds to achieve the total need as identified as State Aid.

**Figure A-5
 Watertown School District Past & Future Enrollment Forecast**

WATERTOWN SCHOOL DISTRICT NO. 14-4					
Enrollment - District					
Grade Level	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Jr Kindergarten	40	34	40	40	40
Kindergarten	185	195	197	206	185
Grade 1	212	186	195	197	206
Grade 2	242	215	186	195	197
Grade 3	252	235	215	186	195
Grade 4	253	241	235	215	186
Grade 5	259	243	241	235	215
Grade 6	279	250	243	241	235
Grade 7	282	285	264	264	263
Grade 8	304	270	285	264	264
Grade 9	330	309	270	285	264
Grade 10	315	306	309	270	285
Grade 11	280	283	306	309	270
Grade 12	298	290	283	306	309
Misc Additions	20	44	35	35	35
Total	3,551	3,386	3,304	3,248	3,149

- The District entered into an agreement with CO-OP Architecture to provide design services for a Student Center Renovation, enhancements for campus edges and entrances, and a Trades Center at LATC.
- The District approved a project development agreement with Johnson Controls for cooling upgrades at Lincoln and Jefferson Elementary Schools, with cost not to exceed \$2,467,000.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors of the Watertown School District with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please feel free to contact the Watertown School District's Business Office, P.O. Box 730, Watertown, SD 57201.

Watertown School District No. 14-4

Statement of Net Position

June 30, 2025

	Primary Government			Component Unit LATC Foundation
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 21,599,953	\$ 1,345,526	\$ 22,945,479	\$ 3,914,739
Investments	14,887,065	605,122	15,492,187	5,269,473
Taxes receivable	11,287,063	-	11,287,063	-
Other receivables	2,135,989	266,874	2,402,863	1,753,495
Interfund balances	(26,845)	26,845	-	-
Inventories	239,741	860,289	1,100,030	-
Prepaid expenses	614,839	30,706	645,545	18,620
Other assets	-	-	-	405,783
Net pension asset	54,529	1,804	56,333	-
Capital and right-to-use lease assets				
Land, improvements and construction in progress	42,581,833	-	42,581,833	-
Capital assets, net	91,509,120	402,703	91,911,823	-
Right-to-use lease assets, net	271,219	-	271,219	-
	<u>185,154,506</u>	<u>3,539,869</u>	<u>188,694,375</u>	<u>11,362,110</u>
Deferred Outflows of Resources				
OPEB related deferred outflows	93,009	-	93,009	-
Pension related deferred outflows	10,479,017	346,841	10,825,858	-
	<u>10,572,026</u>	<u>346,841</u>	<u>10,918,867</u>	<u>-</u>
	<u>\$ 195,726,532</u>	<u>\$ 3,886,710</u>	<u>\$ 199,613,242</u>	<u>\$ 11,362,110</u>
Liabilities				
Accounts payable	\$ 3,962,034	\$ 107,931	\$ 4,069,965	\$ -
Other current liabilities	6,559,864	146,446	6,706,310	448,007
Unearned revenue	153,625	329,068	482,693	-
Noncurrent liabilities				
Due within one year	2,295,193	-	2,295,193	-
Due in more than one year	26,580,475	-	26,580,475	-
Total OPEB liability	1,788,801	-	1,788,801	-
Total liabilities	<u>41,339,992</u>	<u>583,445</u>	<u>41,923,437</u>	<u>448,007</u>
Deferred Inflows of Resources				
OPEB related deferred inflows	173,105	-	173,105	-
Pension related deferred inflows	6,852,737	226,817	7,079,554	-
Taxes levied for future period	12,606,298	-	12,606,298	-
Other deferred inflows of resources	4,294	-	4,294	-
	<u>19,636,434</u>	<u>226,817</u>	<u>19,863,251</u>	<u>-</u>
Net Position				
Net investment in capital and right-to-use lease assets	106,213,865	402,703	106,616,568	-
Restricted for				
Capital Outlay	4,947,287	-	4,947,287	-
Special Education	2,988,641	-	2,988,641	-
SDRS Pension purposes	3,680,809	121,828	3,802,637	-
LATC Post Secondary	6,434,955	-	6,434,955	-
Arrow Education Foundation	3,689,509	-	3,689,509	-
LATC Foundation	-	-	-	10,914,103
Unrestricted	<u>6,795,040</u>	<u>2,551,917</u>	<u>9,346,957</u>	<u>-</u>
Total net position	<u>134,750,106</u>	<u>3,076,448</u>	<u>137,826,554</u>	<u>10,914,103</u>
	<u>\$ 195,726,532</u>	<u>\$ 3,886,710</u>	<u>\$ 199,613,242</u>	<u>\$ 11,362,110</u>

Watertown School District No. 14-4
Statement of Activities
Year Ended June 30, 2025

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit LATC Foundation
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental activities								
Instruction	\$ 48,043,131	\$ 14,146,543	\$ 3,046,135	\$ 3,249,752	\$ (27,600,701)	\$ -	\$ (27,600,701)	\$ -
Support services	27,102,618	994,024	1,849,897	-	(24,258,697)	-	(24,258,697)	-
Community services	75,171	-	-	-	(75,171)	-	(75,171)	-
Nonprogrammed charges	19,869,292	8,502,719	11,466,636	-	100,063	-	100,063	-
Co-curricular activities	2,701,726	427,111	-	-	(2,274,615)	-	(2,274,615)	-
*Interest on long-term debt	718,383	-	-	-	(718,383)	-	(718,383)	-
Total governmental activities	98,510,321	24,070,397	16,362,668	3,249,752	(54,827,504)	-	(54,827,504)	-
Business-type activities								
Food services	2,907,837	1,664,738	986,719	-	-	(256,380)	(256,380)	-
Daycare and preschool	648,570	757,701	109,043	-	-	218,174	218,174	-
Drivers education	61,959	62,918	-	-	-	959	959	-
Bookstore	3,834,833	4,092,530	-	-	-	257,697	257,697	-
Concessions	138,675	129,490	-	-	-	(9,185)	(9,185)	-
Total business-type activities	7,591,874	6,707,377	1,095,762	-	-	211,265	211,265	-
Total primary government	\$ 106,102,195	\$ 30,777,774	\$ 17,458,430	\$ 3,249,752	(54,827,504)	211,265	(54,616,239)	-
Component Unit	\$ 6,634,901	\$ 106,125	\$ 4,157,450					(2,371,326)
General Revenues								
Taxes								
Property taxes					25,108,152	-	25,108,152	-
Gross receipts tax					249,494	-	249,494	-
Revenue from state sources								
State aid					29,644,754	-	29,644,754	-
Other					2,384,323	-	2,384,323	-
Revenue from federal sources								
Unrestricted investment earnings					129,243	-	129,243	-
Other general revenues					1,432,729	80,491	1,513,220	647,276
					2,501,184	-	2,501,184	-
Total general revenues					61,449,879	80,491	61,530,370	647,276
Change in Net Position					6,622,375	291,756	6,914,131	(1,724,050)
Net Position - Beginning					128,127,731	2,784,692	130,912,423	12,638,153
Net Position - Ending					\$ 134,750,106	\$ 3,076,448	\$ 137,826,554	\$ 10,914,103

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

Watertown School District No. 14-4
Balance Sheet – Governmental Funds
June 30, 2025

	General Fund	Capital Outlay Fund	Special Education Fund	LATC Post Secondary Fund	Financial Aid Fund	Other Governmental Funds	Total Governmental Funds
Assets							
101 Cash and cash equivalents	\$ 5,124,288	\$ 5,934,821	\$ 3,304,221	\$ 3,708,599	\$ 7,773	\$ 163,853	\$ 18,243,555
180 Investments	4,978,335	554,434	540,162	5,280,109	-	3,534,025	14,887,065
110 Taxes receivable - current	5,358,446	3,465,641	2,318,599	-	-	-	11,142,686
112 Taxes receivable - delinquent	71,712	43,819	28,846	-	-	-	144,377
120 Accounts receivable, net	21,396	-	-	371,395	-	-	392,791
123 Tuition receivable	-	-	-	28,946	-	-	28,946
140 Due from other governments	647,911	-	297,330	709,011	-	-	1,654,252
150 Advance to imprest	-	-	-	60,000	-	-	60,000
170 Inventory of supplies	185,477	-	-	54,264	-	-	239,741
192 Prepaid expenses	-	-	-	614,839	-	-	614,839
	<u>\$ 16,387,565</u>	<u>\$ 9,998,715</u>	<u>\$ 6,489,158</u>	<u>\$ 10,827,163</u>	<u>\$ 7,773</u>	<u>\$ 3,697,878</u>	<u>\$ 47,408,252</u>
Liabilities							
402 Accounts payable	\$ 184,770	\$ 1,129,410	\$ 127,141	\$ 2,237,427	\$ -	\$ 8,369	\$ 3,687,117
404 Contracts payable	2,118,311	-	583,114	1,545,081	-	-	4,246,506
410 Due to other fund	-	-	-	26,845	-	-	26,845
415 Amounts held for others	102,870	-	-	38,334	-	-	141,204
450 Payroll deductions and withholdings and employer matching payable	586,657	-	166,349	386,602	-	-	1,139,608
475 Unearned revenue	-	-	-	153,625	-	-	153,625
Total liabilities	<u>2,992,608</u>	<u>1,129,410</u>	<u>876,604</u>	<u>4,387,914</u>	<u>-</u>	<u>8,369</u>	<u>9,394,905</u>
Deferred Inflows of Resources							
551 Unavailable revenue - delinquent property taxes	71,712	43,819	28,846	-	-	-	144,377
552 Unavailable revenue - utility taxes	108,781	-	-	-	-	-	108,781
553 Taxes levied for future period	6,060,367	3,922,018	2,623,913	-	-	-	12,606,298
559 Other deferred inflows of resources	-	-	-	4,294	-	-	4,294
Total deferred inflows of resources	<u>6,240,860</u>	<u>3,965,837</u>	<u>2,652,759</u>	<u>4,294</u>	<u>-</u>	<u>-</u>	<u>12,863,750</u>
Fund Balances							
710 Nonspendable for Inventory	185,477	-	-	54,264	-	-	239,741
720 Restricted for Capital Outlay	-	4,903,468	-	-	-	-	4,903,468
Special Education	-	-	2,959,795	-	-	-	2,959,795
LATC Post Secondary	-	-	-	6,380,691	-	-	6,380,691
Financial Aid	-	-	-	-	7,773	-	7,773
Arrow Education Foundation	-	-	-	-	-	3,689,509	3,689,509
760 Unassigned	6,968,620	-	-	-	-	-	6,968,620
Total fund balances	<u>7,154,097</u>	<u>4,903,468</u>	<u>2,959,795</u>	<u>6,434,955</u>	<u>7,773</u>	<u>3,689,509</u>	<u>25,149,597</u>
	<u>\$ 16,387,565</u>	<u>\$ 9,998,715</u>	<u>\$ 6,489,158</u>	<u>\$ 10,827,163</u>	<u>\$ 7,773</u>	<u>\$ 3,697,878</u>	<u>\$ 47,408,252</u>

Watertown School District No. 14-4
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 June 30, 2025

Total Fund Balances - Governmental Funds	\$	25,149,597
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital and right-of-use assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$200,705,421 and the accumulated depreciation/amortization is \$66,343,249.		134,362,172
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(25,740,388)
Unamortized balance of premiums on long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(3,135,280)
Assets such as taxes receivable (delinquent) and utility taxes are not available to pay for current period expenditures and, therefore, are deferred in the funds.		253,158
Internal service funds are used by management to charge the costs of activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.		2,450,339
Interest expense payable is not included as a liability in the fund statements. Interest expense payable is included as a liability in the statement of net position.		(401,404)
OPEB obligations and related deferred outflows of resources and deferred inflows of resources do not represent available financial resources and, therefore, are not reported in the funds.		(1,868,897)
Net pension liability (asset), pension related deferred inflows of resources, and pension related deferred outflows of resources do not represent available financial resources and, therefore, are not reported in the funds.		3,680,809
		<hr/>
Net Position - Governmental Funds	\$	<u><u>134,750,106</u></u>

Watertown School District No. 14-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2025

	General Fund	Capital Outlay Fund	Special Education Fund	LATC Post Secondary Fund	Financial Aid Fund	Other Governmental Funds	Total Governmental Funds
Revenues							
1000 Revenue from local sources							
1100 Taxes							
1110 Ad valorem taxes	\$ 12,140,466	\$ 7,652,980	\$ 5,144,644	\$ -	\$ -	\$ -	\$ 24,938,090
1120 Prior year's ad valorem taxes	51,911	29,130	19,102	-	-	-	100,143
1140 Gross receipts taxes	258,271	-	-	-	-	-	258,271
1190 Penalties and interest on taxes	15,227	9,123	6,067	-	-	-	30,417
1400 Post secondary program tuition and fees	-	-	-	7,653,707	-	-	7,653,707
1500 Earnings on investments and deposits	378,356	211,817	90,467	429,188	-	280,539	1,390,367
1700 Co-curricular activities							
1710 Admissions	63,037	-	-	-	-	-	63,037
1790 Other student activity income	364,074	-	-	-	-	-	364,074
1800 Post secondary							
1820 Resales/services - occupational programs	-	-	-	304,725	-	-	304,725
1830 Resales/services - parts department	-	-	-	269,502	-	-	269,502
1840 State fees	-	-	-	844,843	-	-	844,843
1850 Corporate education fees	-	-	-	499,216	-	-	499,216
1860 Local fees	-	-	-	4,094,144	-	-	4,094,144
1900 Other revenue from local sources							
1910 Rentals	224,110	-	-	536,554	-	-	760,664
1920 Contributions and donations	-	306,647	-	3,435,869	-	399,910	4,142,426
1970 Charges for services	60,314	-	25,599	333,884	-	-	419,797
1990 Other	518,000	139,781	1,563	1,583,334	29,776	59,441	2,331,895
2000 Revenue from intermediate sources							
2100 County sources							
2110 County apportionment	414,409	-	-	-	-	-	414,409
2200 Revenue in lieu of taxes	24,159	-	-	-	-	-	24,159
3000 Revenue from state sources							
3100 Grants-in-aid							
3110 Unrestricted grants-in-aid	14,090,463	-	-	11,802,167	-	-	25,892,630
3120 Restricted grants-in-aid	51,926	-	2,756,931	3,379,516	122,066	-	6,310,439
3900 Other state revenue	4,617	-	-	1,113,748	-	-	1,118,365
4000 Revenue from federal sources							
4100 Grants-in-aid							
4130 Unrestricted grants-in-aid received from federal government through an intermediate source	1,753	-	-	-	-	-	1,753
4140 Restricted grants-in-aid received directly from federal government	-	-	-	916,438	10,398,356	-	11,314,794
4150-4199 Restricted grants-in-aid received from federal government through the state	1,103,048	-	1,033,762	700,874	-	-	2,837,684
4900 Other federal revenue	-	125,426	-	2,064	-	-	127,490
Total revenues	<u>29,764,141</u>	<u>8,474,904</u>	<u>9,078,135</u>	<u>37,899,773</u>	<u>10,550,198</u>	<u>739,890</u>	<u>96,507,041</u>

Watertown School District No. 14-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2025

	General Fund	Capital Outlay Fund	Special Education Fund	LATC Post Secondary Fund	Financial Aid Fund	Other Governmental Funds	Total Governmental Funds
Expenditures							
1000 Instruction							
1100 Regular programs							
1110 Elementary schools	8,530,085	643,021	-	-	-	-	9,173,106
1120 Middle/junior high schools	2,688,988	48,737	-	-	-	-	2,737,725
1130 High school	4,987,637	255,774	-	-	-	-	5,243,411
1140 Preschool services	64,500	-	-	-	-	-	64,500
1200 Special programs							
1210 Gifted and talented	82,029	-	-	-	-	-	82,029
1220 Programs for special education	-	6,632	5,906,865	-	-	-	5,913,497
1250 Culturally different	220,880	-	-	-	-	-	220,880
1270 Educationally deprived	526,234	-	-	-	-	-	526,234
1290 Other special programs	546,093	-	-	-	-	-	546,093
1300 Adult continuing education programs							
1390 Other adult continuing education programs	-	-	-	195,321	-	-	195,321
1500-1999 Post secondary occupational programs	-	-	-	20,961,603	-	-	20,961,603
2000 Support services							
2100 Pupils							
2110 Attendance and social work	359,984	-	-	-	-	-	359,984
2120 Guidance	906,558	-	-	2,112,592	-	-	3,019,150
2130 Health	240,978	-	199,292	-	-	-	440,270
2140 Psychological	-	-	315,124	-	-	-	315,124
2150 Speech pathology	-	-	832,062	-	-	-	832,062
2160 Audiology services	-	-	10,840	-	-	-	10,840
2170 Student therapy services	-	-	525,678	-	-	-	525,678
2200 Support services - instructional staff							
2210 Improvement of instruction	437,857	-	84,192	572,960	-	-	1,095,009
2220 Educational media	1,260,375	-	9,004	1,095,519	-	-	2,364,898
2300 Support services - general administration							
2310 Board of Education	109,757	-	-	80,496	-	-	190,253
2320 Executive administration	644,877	5,164	-	1,817,799	-	-	2,467,840
2400 Support services - school administration							
2410 Office of the Principal	1,910,561	-	-	-	-	-	1,910,561
2420 Vocational school - directors office	-	-	-	1,055,652	-	-	1,055,652
2430 Financial aid administration	-	-	-	310,260	-	-	310,260
2440 Title I program administration	31,786	-	-	-	-	-	31,786
2490 Other support services	79,577	-	-	434,403	-	-	513,980
2500 Support services - business							
2520 Fiscal services	646,802	90,946	-	320,548	-	97,795	1,156,091
2530 Facilities acquisition and construction	-	-	-	4,413,951	-	-	4,413,951
2540 Operation and maintenance of plant	3,423,119	11,437,097	-	2,752,587	-	-	17,612,803
2550 Pupil transportation	1,164,460	516,570	-	-	-	-	1,681,030
2590 Other	-	-	-	-	-	94,246	94,246
2600 Support services - central							
2620 Planning	58,464	-	-	-	-	-	58,464

Watertown School District No. 14-4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2025

	General Fund	Capital Outlay Fund	Special Education Fund	LATC Post Secondary Fund	Financial Aid Fund	Other Governmental Funds	Total Governmental Funds
2700 Support services - special education							
2710 Administrative costs	-	-	172,517	-	-	-	172,517
2730 Transportation costs	-	-	121,417	-	-	-	121,417
2750 Other special education costs	-	-	628	-	-	-	628
2800 Resale services							
2810 Post secondary resales/service	-	-	-	10,161	-	-	10,161
2820 RIS - precision production	-	-	-	421,630	-	-	421,630
2900 Other support services	-	-	-	35,969	-	-	35,969
3000 Community services							
3700 Nonpublic school	75,171	-	-	-	-	-	75,171
4000 Nonprogrammed charges							
4200 Student financial aid	-	-	-	-	10,567,681	54	10,567,735
4400 Payments to state - unemployment	-	-	-	11,095	-	-	11,095
4500 Early retirement payments	552,140	-	-	196,745	-	-	748,885
4900 Other nonprogrammed costs	-	-	-	-	-	227,191	227,191
5000 Debt services	61,165	2,431,995	1,020	71,163	-	-	2,565,343
6000 Co-curricular activities							
6100 Male activities	242,314	-	-	-	-	-	242,314
6200 Female activities	255,257	-	-	-	-	-	255,257
6500 Transportation	238,181	-	-	-	-	-	238,181
6900 Combined activities	1,214,337	160,301	-	150,687	-	-	1,525,325
Total expenditures	<u>31,560,166</u>	<u>15,596,237</u>	<u>8,178,639</u>	<u>37,021,141</u>	<u>10,567,681</u>	<u>419,286</u>	<u>103,343,150</u>
Excess of Revenue over (under) Expenditures	<u>(1,796,025)</u>	<u>(7,121,333)</u>	<u>899,496</u>	<u>878,632</u>	<u>(17,483)</u>	<u>320,604</u>	<u>(6,836,109)</u>
Other Financing Sources (Uses)							
5110 Transfers in	1,200,000	-	-	-	15,000	-	1,215,000
8110 Transfers out	-	(1,200,000)	-	(15,000)	-	-	(1,215,000)
5120 Proceeds from long-term debt	-	4,865,000	-	-	-	-	4,865,000
5214 Lease proceeds	-	-	-	19,161	-	-	19,161
5130 Sale of surplus property	-	866,136	-	8,468	-	-	874,604
8150 Premiums on bonds issued	-	195,811	-	-	-	-	195,811
Total other financing sources (uses)	<u>1,200,000</u>	<u>4,726,947</u>	<u>-</u>	<u>12,629</u>	<u>15,000</u>	<u>-</u>	<u>5,954,576</u>
Net Change in Fund Balances	<u>(596,025)</u>	<u>(2,394,386)</u>	<u>899,496</u>	<u>891,261</u>	<u>(2,483)</u>	<u>320,604</u>	<u>(881,533)</u>
Fund Balance - Beginning	<u>7,750,122</u>	<u>7,297,854</u>	<u>2,060,299</u>	<u>5,543,694</u>	<u>10,256</u>	<u>3,368,905</u>	<u>26,031,130</u>
Fund Balance - Ending	<u>\$ 7,154,097</u>	<u>\$ 4,903,468</u>	<u>\$ 2,959,795</u>	<u>\$ 6,434,955</u>	<u>\$ 7,773</u>	<u>\$ 3,689,509</u>	<u>\$ 25,149,597</u>

Watertown School District No. 14-4
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the
 Government-Wide Statement of Activities
 Year Ended June 30, 2025

Net Change in Fund Balances - Total Governmental Funds		\$ (881,533)
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 or amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period.		12,463,824
In the statement of activities, gains and losses on disposal of capital assets are reported; whereas, in the governmental funds, the proceeds from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized.		(849,755)
The receipt of donated capital assets is not reported on the fund statements, but is reported as a general revenue on the government-wide statements.		25,000
Payment of principal on long-term debt and lease liabilities is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.		
CO Certificates	\$ 1,565,000	
Lease liabilities	116,065	1,681,065
The issuance of long-term debt is an other financing source in the fund statements, but is an increase in long-term liabilities on the government-wide statements.		
CO Certificates	\$ 4,865,000	(4,884,161)
Lease liabilities	19,161	
In the statement of activities, certain operating expenses (early retirement) are measured by the amounts earned during the year. In the governmental funds expenditures, these items are measured by the amount actually paid. Early retirement paid during the period exceeded the amount earned.		593,405
In both the government-wide and fund financial statements, revenues from property tax levies and utility taxes are applied to finance the budget of a particular period. Accounting for revenues from property and utility tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available." This amount reflects the application of both the application period and "availability criteria."		30,725
Interest expense payable is not included as an expenditure in the fund statements. Interest expense payable is included as an expenditure in the statement of activities.		(69,389)

Watertown School District No. 14-4
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the
Government-Wide Statement of Activities
Year Ended June 30, 2025

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service is reported with governmental activities.	(362,710)
The accrual of OPEB costs are not reflected in governmental funds, but the statement of activities reflects the change in this liability and related deferred outflows of resources from one year to the next.	293,827
Governmental funds report the effect of premiums and discounts when the debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities. This is the amount of premiums amortized in the current period.	39,473
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	<u>(1,457,396)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 6,622,375</u></u>

Watertown School District No. 14-4
Statement of Net Position – Proprietary Funds
June 30, 2025

	<u>Nonmajor Enterprise Funds</u>	<u>Internal Service Fund</u>
Assets		
Current assets		
101 Cash and cash equivalents	\$ 1,345,526	\$ 3,356,398
180 Investments	605,122	-
120 Accounts receivable	248,991	-
130 Due from other funds	29,501	-
140 Due from other governments	17,883	-
170 Inventory of supplies	7,311	-
171 Inventory of stores purchased for resale	846,023	-
172 Inventory of donated food	6,955	-
192 Prepaid expenses	30,706	-
Total current assets	<u>3,138,018</u>	<u>3,356,398</u>
Noncurrent assets		
196 Net pension asset	1,804	-
200 Capital assets		
204 Machinery and equipment - local funds	917,373	-
Less accumulated depreciation	<u>(514,670)</u>	<u>-</u>
Total noncurrent assets	<u>404,507</u>	<u>-</u>
Deferred outflows of resources		
252 Pension related deferred outflows	<u>346,841</u>	<u>-</u>
	<u>\$ 3,889,366</u>	<u>\$ 3,356,398</u>

Watertown School District No. 14-4
Statement of Net Position – Proprietary Funds
June 30, 2025

	<u>Nonmajor Enterprise Funds</u>	<u>Internal Service Fund</u>
Liabilities and Net Position		
Liabilities		
400 Current liabilities		
402 Accounts payable	\$ 107,931	\$ 274,917
404 Contracts payable	40,320	-
409 Incurred but not reported claims	-	631,142
410 Due to other funds	2,656	-
450 Payroll deductions and withholdings and employer matching payable	9,448	-
471 Deposits payable	96,678	-
475 Unearned revenue	329,068	-
Total current liabilities	<u>586,101</u>	<u>906,059</u>
Deferred inflows of resources		
554 Pension related deferred inflows	<u>226,817</u>	<u>-</u>
Net Position		
706 Net investment in capital assets	402,703	-
707.2 Restricted for pension benefits	121,828	-
708 Unrestricted net position	<u>2,551,917</u>	<u>2,450,339</u>
Total net position	<u>3,076,448</u>	<u>2,450,339</u>
	<u>\$ 3,889,366</u>	<u>\$ 3,356,398</u>
Some amounts reported for business-type activities in the statement of net position are different because:		
Business-type activities reflect the net due from/due to other funds as interfund balances within the assets section of the statement of net position	<u>(2,656)</u>	
	<u>\$ 3,886,710</u>	

Watertown School District No. 14-4
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds
Year Ended June 30, 2025

	Nonmajor Enterprise Funds	Internal Service Fund
Operating Revenues		
Sales		
1340 Preschool tuition	\$ 130,175	\$ -
1610 To pupils	1,519,784	-
1620 To adults	15,573	-
1630 Ala carte	165,605	-
1690 Other	156,184	-
1720 Bookstore sales	4,092,530	-
1970 Self-insurance premiums	-	8,502,719
1980 Daycare charges for services	627,526	-
Total operating revenues	<u>6,707,377</u>	<u>8,502,719</u>
Operating Expenses		
100 Salaries	1,732,693	-
200 Employee benefits	517,364	-
300 Purchased services	186,851	-
400 Supplies	101,730	-
461 Cost of sales - purchased	4,898,895	-
462 Cost of sales - donated	103,462	-
600 Other	9,492	-
900 Depreciation	41,387	-
4620 Self-insurance costs	-	8,907,791
Total operating expenses	<u>7,591,874</u>	<u>8,907,791</u>
Operating Loss	<u>(884,497)</u>	<u>(405,072)</u>
Nonoperating Revenue		
Local sources		
1500 Investment earnings	80,491	42,362
1920 Contributions and donations	55,000	-
1990 Other	5,000	-
State sources		
3810 Cash reimbursements	5,239	-
Federal sources		
4150 Federal grants	15,000	-
4810 Cash reimbursements	912,061	-
4820 Donated food	103,462	-
Total nonoperating revenue	<u>1,176,253</u>	<u>42,362</u>
Change in Net Position	291,756	(362,710)
Net Position - Beginning	<u>2,784,692</u>	<u>2,813,049</u>
Net Position - Ending	<u>\$ 3,076,448</u>	<u>\$ 2,450,339</u>

Watertown School District No. 14-4

Statement of Cash Flows – Proprietary Funds

Year Ended June 30, 2025

	Nonmajor Enterprise Funds	Internal Service Fund
Cash Flows from (used for) Operating Activities		
Cash receipts from customers	\$ 6,548,341	\$ -
Cash receipts from interfund services provided	-	8,502,719
Payments to employees	(2,176,044)	-
Payments to suppliers	(5,585,968)	-
Payments for claims	-	(8,726,185)
Net Cash used for Operating Activities	<u>(1,213,671)</u>	<u>(223,466)</u>
Cash Flows from Noncapital Financing Activities		
Operating grants	75,000	-
Operating subsidies	917,485	-
Net Cash from Noncapital Financing Activities	<u>992,485</u>	<u>-</u>
Cash Flows used for Capital and Related Financing Activities		
Purchase of capital assets	(121,528)	-
Net Cash used for Capital and Related Financing Activities	<u>(121,528)</u>	<u>-</u>
Cash Flows from Investing Activities		
Cash received for interest	44,037	42,362
Sale of investments	238,215	-
Net Cash from Investing Activities	<u>282,252</u>	<u>42,362</u>
Net Change in Cash and Cash Equivalents	(60,462)	(181,104)
Cash and Cash Equivalents, Beginning of Year	1,405,988	3,537,502
Cash and Cash Equivalents, End of Year	<u>\$ 1,345,526</u>	<u>\$ 3,356,398</u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	\$ (884,497)	\$ (405,072)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation expense	41,387	-
Value of donated commodities used	103,462	-
Change in assets and liabilities		
Accounts receivable	(27,681)	-
Inventories	(176,578)	-
Due from other funds	7,512	-
Due from other governments	(1,279)	-
Prepaid expenses	(8,882)	-
Pension asset and deferred outflows	60,951	-
Accounts payable	(209,729)	181,606
Contracts payable	14,572	-
Payroll deductions and withholdings and employer matching payable	3,726	-
Due to other funds	(44)	-
Deposits payable	12,346	-
Unearned revenue	(143,701)	-
Pension liability and deferred inflows	(5,236)	-
Net Cash used for Operating Activities	<u>\$ (1,213,671)</u>	<u>\$ (223,466)</u>
Noncash Investing, Capital and Financing Activities		
Value of commodities received	\$ 103,462	\$ -
Gain on investments not affecting operating loss	36,453	-

Note 1 - Summary of Significant Accounting Policies

The Watertown School District No. 14-4's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for school districts through its pronouncements. The more significant accounting policies established in GAAP and used by the School District are discussed below.

Reporting Entity

The reporting entity of the Watertown School District No. 14-4 (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); its discretely presented component unit; and those 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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District.

The Lake Area Technical College Foundation meets the definition of a discretely presented component unit. This component unit is displayed in a separate column in the government-wide financial statements to emphasize that it is legally separate from the School District. The Arrow Education Foundation meets the definition of a blended component unit. This component unit is displayed within governmental funds as a non-major governmental fund. Separate unaudited financial statements are available for both of the component units upon request from the School District.

Basis of Presentation and Basis of Accounting**Basis of Presentation**

Government-Wide Statements: The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government, except for fiduciary activities and component units. Eliminations to the various funds have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities and discretely presented component units of the School District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties. Discretely presented component units are legally separate organizations that meet certain criteria, as described above, and may be classified as either governmental or business-type activities. See the discussion of individual component units above.

The statement of net position reports all financial and capital resources in a net position form (assets and deferred outflows of resources minus liabilities and deferred inflows of resources 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 the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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

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

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

Governmental Funds

General Fund: The General Fund is established by South Dakota Codified Law (SDCL) 13-16-3 to meet all of 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.

The special revenue funds maintained by the School District are as follows:

- Capital Outlay Fund – A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks, and instructional software. This fund is financed by property taxes. This is a major fund.
- Special Education Fund – A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the School District. This fund is financed by grants and property taxes. This is a major fund.
- LATC Post-Secondary Fund – A fund established by SDCL 13-39-39.1 to account for funds incidental to the operation of Lake Area Technical College, a school providing post-secondary vocational education programs. This fund is financed by tuition and fees and grants. This is a major fund.
- Financial Aid Fund – A fund established to account for funds incidental to the operation of Lake Area Technical College’s student financial aid programs. This fund is financed by grants. This is a major fund.
- Perkins Fund – A fund established to account for funds incidental to the operation of Lake Area Technical College’s Perkins Loan financial aid program. This fund is financed by grants, fees and interest. This is not a major fund and was closed in fiscal year 2025.
- Arrow Education Foundation – This is an unaudited blended component unit which is a separate and independent corporation organized for the benefit of the School District. The primary focus of the Arrow Education Foundation is to support the advancement of education through scholarships and grants for costs associated with classroom activities and new program implementation for the benefit of students. The Arrow Education Foundation is financed by contributions and donations and earnings on investments. This is not a major fund.

Proprietary Funds

Enterprise Funds: Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met:

- The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity.
- Laws or regulations require that the activity's costs of providing services, including capital costs, be recovered with fees and charges, rather than with taxes or similar revenues.
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

The enterprise funds maintained by the School District are as follows:

- Food Service Fund – A fund used to record financial transactions related to K-12 food service operations. This fund is financed by user charges and grants. This is not a major fund.
- Concessions Fund – A fund used to record financial transactions related to operations of school activity concessions programs. This fund is financed by user charges. This is not a major fund.
- Drivers Education Fund – A fund used to record financial transactions related to operations of the School District’s drivers education program. This fund is financed by user charges. This is not a major fund.

- Pre-School Services Fund – A fund used to record financial transactions related to operations of the pre-school services program. This fund is financed by user charges. This is not a major fund.
- Bookstore Fund – A fund used to record financial transactions related to operations of the Lake Area Technical College bookstore. This fund is financed by user charges. This is not a major fund.
- LATC Food Service Fund – A fund used to record financial transactions related to operations of Lake Area Technical College’s food service operations. This fund is financed by user charges and grants. This is not a major fund.
- LATC Daycare Fund – A fund used to record financial transactions related to operations of Lake Area Technical College’s daycare facility. This fund is financed by user charges and grants. This is not a major fund.

Internal Service Funds: A fund used to report activities that provide goods or services to other funds, departments, or agencies of the School District and its component units, or to other governments, on a cost-reimbursement basis. Internal service funds are never considered to be major funds. The Self Insurance Fund is the only internal service fund maintained by the School District.

Measurement Focus and Basis of Accounting

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

Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

Basis of Accounting

Government-Wide Financial Statements

In the government-wide statement of net position and statement of activities, governmental, business-type, and component unit 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 fund types 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 for the School District is 45 days for property tax receipts. Revenues from reimbursement grants and other similar reimbursement items are recognized when all eligibility requirements imposed by the provider have been met. State revenues are recognized in the year to which the revenue relates or applies. Under the modified accrual basis of accounting, receivables may be measurable but not available. 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 proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Interfund Eliminations and Reclassifications

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

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as internal balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged in this manner, expense reductions occur in the respective funds so that expenses are reported only in the function to which they relate.

Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" for the School District includes all demand and savings accounts and certificates of deposit (as early redemption costs would be insignificant) or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-ended mutual fund shares, or similar investments in external investment pools, are also considered to be cash and cash equivalents.

Investments classified in the financial statements of the primary government consist of U.S. Treasuries, negotiable certificates of deposit, and money markets. The investments held by the component units, the LATC Foundation and Arrow Education Foundation, were not audited.

Property Taxes

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

Inventory

Inventory is stated at cost on the first-in, first-out (FIFO) basis. When individual inventory items are purchased they are recorded as assets. When inventory items are consumed, they are recorded as expenditures in governmental funds or expenses in proprietary funds. Although classified as current assets, these inventory balances are offset by nonspendable fund balance amounts which indicate that they do not constitute "available spendable resources" even though they are a component of net current assets. Inventories purchased by the Food Service Fund and LATC Food Service Fund are stated at cost as determined by the first-in, first-out method. Commodity inventories are stated at USDA's assigned values, which approximate fair value at the date of receipt. Expenses for food items are recorded when consumed.

Capital Assets

Capital assets include land, buildings and improvements, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations, and whether they are reported in the government-wide or fund financial statements.

Government-wide 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 acquisition value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized. Interest costs incurred during construction of capital assets are not capitalized along with other capital asset costs.

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 (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land*	Any Amount	*	*
Buildings and improvements	\$ 25,000	Straight-Line	10 - 50 years
Machinery and equipment	5,000	Straight-Line	3 - 20 years

*Land, an inexhaustible capital asset, is not depreciated.

Right-to-use leased assets are recognized at the lease commencement date and represent the School District’s right to use an underlying asset for the lease term. Right-to-use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the leased asset into service. Right-to-use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight line method. The amortization period is approximately three to five years.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

Lease Receivables

Lease receivables are recorded by the School District at the present value of future lease payments expected to be received from the lessee during the lease term, reduced by any provision for estimated uncollectible amounts. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period. The present value of future lease payments to be received are discounted based on the interest rate the School District charges the lessee.

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 consist primarily of early retirement benefits payable, capital outlay certificates payable, and lease liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenues and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is on the accrual basis, the same in the fund statement as it is in the government-wide statements.

Lease liabilities represent the School District's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on a borrowing rate determined by the School District.

Compensated Absences

Eligible employees of the School District earn vacation, personal and sick days in varying amounts, all of which accumulate but none of which are paid out upon termination. In accordance with GASB 101, *Compensated Absences*, a liability is recognized when it is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Based on the School District's leave accrual patterns and historical usage of leave, utilizing a LIFO (last-in, first-out) assumption, the amount of accumulated leave more likely than not to be used for time off is insignificant and does not have a significant impact on the School District's financial statements. Therefore, no liability for these accumulated leave types has been recognized.

Cash and Cash Equivalents

The School District pools some of its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. All reported deposit balances are considered to be cash equivalents for the purpose of the statement of cash flows.

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.

Proprietary Funds Revenue and Expense Classifications

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. In the proprietary fund's statement of activities, revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities, are not reported as components of operating revenues or expenses.

Equity Classifications

Government-Wide Statements

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance, and is distinguished between nonspendable, restricted, committed, assigned, or unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

Fund Balance Classification Policies and Procedures

The School District classifies governmental fund balance 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 restraints.
- 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, 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 nor committed. Fund balance may be assigned by the School Board or Business Manager.
- Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The nonspendable fund balance in the General Fund and the LATC Post Secondary Fund is comprised of inventory which is in a nonspendable form.

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

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Capital Outlay Fund	Property taxes
Special Education Fund	Grants and property taxes
LATC Post Secondary Fund	Tuition and fees and grants
Financial Aid Fund	Grants

Application of Net Position

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

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. The School District’s contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

Deferred Outflows and Deferred 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 three items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, changes in the net pension liability (asset) not included in pension expense reported in the government-wide statement of net position, and changes in the total OPEB liability included in health insurance expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has four 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.

Another item is changes in the net pension liability (asset) not included in pension expense reported in the government-wide statement of net position. An additional item is deferred inflows related to leases where the School District is the lessor and is reported in the governmental funds balance sheet and statement of net position. The deferred inflows of resources related to leases are recognized as an inflow of resources (revenue) on the straight-line basis over the term of the lease. The final item is changes in the total OPEB liability included in health insurance expense reported in the government-wide statement of net position.

Adoption of New Standards

As of July 1, 2024, the School District adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. There was not a significant effect on the School District's financial statements as a result of the implementation of this standard.

As of July 1, 2024, the School District adopted GASB Statement No. 102, *Certain Risk Disclosures*, which requires management to evaluate whether there are risks related to a government's vulnerabilities due to certain concentrations or constraints that require disclosure.

Note 2 - Deposits and Investments Fair Value Measurement, Credit Risk, Concentrations of Credit Risk, and Interest Rate Risk

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits

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

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, 2025, the School District's bank balances were \$23,215,357, which includes various bank accounts. Of these deposits, \$250,000 was covered by the FDIC and the remaining balance was uninsured but collateralized with securities held by the pledging financial institution.

Investments

Investments – In general, SDCL 4-5-6 permits School District 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) above; or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

The School District holds negotiable certificates of deposits, U.S. Treasuries and money market account funds as investments. As of June 30, 2025, the School District also has investments reported in the financial statements that are held by the two component units, the LATC Foundation and the Arrow Education Foundation, which were unaudited and are not included in the following:

	Moody's Credit Rating	Fair Value	Fair Value Level	Maturity (In Years)	
				Less Than 1	1 to 5
U.S. Treasuries	AAA	\$ 4,667,581	2	\$ 2,837,807	\$ 1,829,774
Money Market	Not Rated	7,049,943	1	7,049,943	-
Negotiable CDs	Not Rated	240,637	2	-	240,637

Negotiable certificates of deposit and U.S. Treasuries classified in Level 2 of the fair value hierarchy are valued by the custodian of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market rate assumptions.

Custodial Credit Risk - Investments – The risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have an investment policy for custodial risk.

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.

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.

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer. More than 5% of the School District’s investments are in U.S. Treasuries, which were approximately 39% of the total investments indicated in the table on the previous page.

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 fund holding the deposit or making the investment.

Note 3 - Receivables and Payables

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year, except for in the Bookstore Fund, to which all but approximately \$65,000 of the accounts receivable is expected to be collected within one year. An allowance for estimated uncollectible accounts has been established in the Bookstore Fund using historical loss rates and forward looking assumptions regarding collectability to estimate an allowance for doubtful accounts of \$102,869 as of June 30, 2025.

As of June 30, 2025, amounts due from other governments are due from the following sources as follows:

General Fund	
Due from federal sources	\$ 397,199
Due from state sources	249,495
Due from local sources	1,217
Special Education Fund	
Due from federal sources	297,330
LATC Post Secondary Fund	
Due from federal sources	458,906
Due from state sources	250,105
	<hr/>
Total due from other governments	<u>\$ 1,654,252</u>

Note 4 - Changes in Capital Assets

A summary of changes in capital assets for the year ended June 30, 2025, is as follows:

<u>Primary Government</u>	<u>Balance July 1, 2024</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2025</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 7,422,696	\$ 630,000	\$ 133,589	\$ 7,919,107
Construction work in process	23,971,036	12,168,785	1,477,095	34,662,726
Total not being depreciated	<u>31,393,732</u>	<u>12,798,785</u>	<u>1,610,684</u>	<u>42,581,833</u>
Capital and right-to-use assets being depreciated/amortized				
Buildings and improvements	119,959,482	2,452,270	2,352,354	120,059,398
Machinery and equipment	33,995,284	4,310,251	850,748	37,454,787
Right-to-use buildings	236,646	19,161	-	255,807
Right-to-use machinery and equipment	353,596	-	-	353,596
Total being depreciated/amortized	<u>154,545,008</u>	<u>6,781,682</u>	<u>3,203,102</u>	<u>158,123,588</u>
Less accumulated depreciation/amortization for				
Buildings and improvements	40,994,549	2,968,842	1,766,900	42,196,491
Machinery and equipment	22,002,354	2,526,256	720,036	23,808,574
Right-to-use buildings	83,189	48,731	-	131,920
Right-to-use machinery and equipment	135,545	70,719	-	206,264
Total accumulated depreciation/amortization	<u>63,215,637</u>	<u>5,614,548</u>	<u>2,486,936</u>	<u>66,343,249</u>
Total capital assets and right-to-use assets being depreciated/amortized, net	<u>91,329,371</u>	<u>1,167,134</u>	<u>716,166</u>	<u>91,780,339</u>
Governmental activities capital and right-to-use assets, net	<u>\$ 122,723,103</u>	<u>\$ 13,965,919</u>	<u>\$ 2,326,850</u>	<u>\$ 134,362,172</u>
Governmental activities				
Instruction				\$ 4,500,050
Support services				686,364
Co-curricular activities				428,134
Total depreciation/amortization expense - governmental activities				<u>\$ 5,614,548</u>
<u>Business-Type Activities</u>	<u>Balance July 1, 2024</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2025</u>
Capital assets, being depreciated				
Machinery and equipment	\$ 795,845	\$ 121,528	\$ -	\$ 917,373
Total being depreciated	<u>795,845</u>	<u>121,528</u>	<u>-</u>	<u>917,373</u>
Less accumulated depreciation for				
Machinery and equipment	473,283	41,387	-	514,670
Total accumulated depreciation	<u>473,283</u>	<u>41,387</u>	<u>-</u>	<u>514,670</u>
Total capital assets being depreciated, net	<u>322,562</u>	<u>80,141</u>	<u>-</u>	<u>402,703</u>
Business-type activities capital assets, net	<u>\$ 322,562</u>	<u>\$ 80,141</u>	<u>\$ -</u>	<u>\$ 402,703</u>
Business-type activities				
Food service				\$ 31,791
Concessions				390
LATC food service				2,063
LATC daycare				7,143
Total depreciation expense - business-type activities				<u>\$ 41,387</u>

As of June 30, 2025, the School District had remaining commitments of approximately \$722,000 related to Phase II of the athletic complex project at the high school, and remaining commitments of approximately \$1,325,000 related to various remodel, renovation and expansion projects at LATC and other elementary schools.

Note 5 - Long-Term Debt

A summary of changes in long-term debt follows:

	Amounts Outstanding July 1, 2024	Issued	Retired	Amounts Outstanding June 30, 2025	Due in One Year
Governmental Activities					
Capital outlay certificates	\$ 21,995,000	\$ 4,865,000	\$ (1,565,000)	\$ 25,295,000	\$ 1,765,000
Unamortized premium	3,174,753	195,811	(235,284)	3,135,280	240,996
Total debt	25,169,753	5,060,811	(1,800,284)	28,430,280	2,005,996
Lease liabilities	378,877	19,161	(116,065)	281,973	125,782
Early retirement	756,820	-	(593,405)	163,415	163,415
Total primary government	<u>\$ 26,305,450</u>	<u>\$ 5,079,972</u>	<u>\$ (2,509,754)</u>	<u>\$ 28,875,668</u>	<u>\$ 2,295,193</u>

Early retirement benefits payable for governmental activities typically have been liquidated from the General Fund and LATC Post Secondary Fund. Long-term debt payable and early retirement at June 30, 2025, is composed of the following:

Capital Outlay Certificates

Capital outlay certificates, series 2020, interest rate ranges from 3.00% to 5.00% and final maturity date of August 2041. Debt service payments made by the Capital Outlay Fund. \$ 11,015,000

Capital outlay certificates, series 2014, interest rate ranges from 3.00% to 4.00% and final maturity date of December 2026. Debt service payments made by the Capital Outlay Fund. 885,000

Capital outlay certificates, series 2025, interest rate ranges from 4.00% to 5.00% and final maturity date of August 2044. Debt service payments made by the Capital Outlay Fund. 4,865,000

Capital Outlay Refunding Certificates

Capital outlay refunding certificates, series 2016, interest rate ranges from 1.60% to 2.05% and final maturity date of December 2026. Debt services payments made by the Capital Outlay Fund. 305,000

Capital outlay refunding certificates, series 2017, interest rate ranges from 2.00% to 4.00% and final maturity date of August 2033. Debt service payments made by the Capital Outlay Fund. 8,225,000

Early Retirement

Requires annual payments of not more than \$76,500 per individual with payment made from General Fund and LATC Post Secondary Fund. 163,415

Plus unamortized premiums 3,135,280

\$ 28,593,695

The annual requirements to maturity for all debt, early retirement, and lease liabilities outstanding, excluding unamortized debt premiums, as of June 30, 2025, are as follows:

Year Ending June 30,	C.O. Certificates		Early Retirement		Lease Liabilities	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 1,765,000	\$ 974,361	\$ 163,415	\$ -	\$ 125,782	\$ 12,073
2027	1,665,000	905,976	-	-	132,398	5,675
2028	1,620,000	834,450	-	-	20,957	519
2029	1,695,000	760,975	-	-	2,836	23
2030	1,775,000	684,025	-	-	-	-
2031-2035	8,860,000	2,223,725	-	-	-	-
2036-2040	5,360,000	950,000	-	-	-	-
2041-2045	2,555,000	185,900	-	-	-	-
	<u>\$ 25,295,000</u>	<u>\$ 7,519,412</u>	<u>\$ 163,415</u>	<u>\$ -</u>	<u>\$ 281,973</u>	<u>\$ 18,290</u>

Note 6 - Leases

Lessee Activities

The School District leases the facilities for a portion of Lake Area Technical College from the South Dakota Board of Technical Education (the Board). The facilities were constructed by the South Dakota Health and Education Facilities Authority (the Authority) funded by proceeds from bonds issued. The Board leases the facilities from the Authority and then sub-leases the facilities to the School District. The lease agreement between the Board and the Authority calls for rental payments that coincide with the required debt service of the Authority. Currently, the rental payments are being paid from the facility fee fund account maintained by the trustee. The facility fee, as of June 30, 2025, is a \$36 per credit hour fee collected from each student attending the four vocational technical schools in South Dakota. These fees are remitted to the trustee for the purpose of making the lease rental payments to the Authority that ultimately retire the indebtedness of the Authority related to the facilities constructed at the various vocational technical schools. The original lease agreement between the Authority and the Board was dated August 1, 1988, and has since been amended and supplemented over the years adding additional Authority-financed projects as leased property and providing for the payment of lease rentals annually from the trust account sufficient to pay the debt service with respect to the additional bonds; however, the sub-lease agreement between the Board and the School District has not been amended and annually renews each July 1 for the ensuing year. As of June 30, 2025, it is anticipated that the facility fees held by the trustee will be sufficient to make the lease rental payments throughout the duration of the leased facilities.

The School District has entered into various leases for copier machines, airport terminal space, hanger space for aircraft, and office space. The School District is required to make principal and interest payments through August 2028. The lease liability was valued using a discount rate of 5.00%, determined based on the School District's incremental borrowing rate at the inception of the leases.

Lessor Activities

The School District is the lessor of classroom and facility space. The remaining lease receivable and deferred inflows for this lease was \$0 and \$4,294, respectively, as of June 30, 2025. Interest revenue recognized on the lease was \$2,223 and principal receipts were \$52,777 for the year ended June 30, 2025. The interest rate on the lease was 5.00% and runs through July 2025.

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>Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay	Law	\$ 4,947,287
Special Education	Law	2,988,641
SDRS pension benefits	Law	3,802,637
LATC Post Secondary	Law	6,434,955
Total restricted net position		<u><u>\$ 18,173,520</u></u>

Note 8 - Early Retirement

The School District has an early retirement plan providing cash benefits to any full-time salaried employee with at least fifteen years of full-time salaried service with the School District and who are between and/or inclusive of the ages of fifty-five and sixty-two as of June 30 or the application year. Employees who leave, or have previously left, the School District are not eligible for the benefit if they are re-employed after August 1, 2008. The cash benefit is equal to 75% of the individual employee’s last contract salary, exclusive of extra duty and co-curricular salary, if any, unless the position with a sport/activity has been held for fifteen consecutive years immediately preceding retirement. The liability is recorded based upon the specified annual payments that are due and has not been discounted as the School District has determined the discount to not be material.

Note 9 - Joint Venture

The School District participates in the Northeast Technical High School, a cooperative service unit (Co-op) formed for the purpose of providing vocational training services to the member school districts.

The percentage participation in the Co-op and annual assessments is adjusted annually based upon each member school district’s official state enrollment numbers from the previous school year. The members of the Co-op and their relative percentage participation in the Co-op as of June 30, 2025, are as follows:

Castlewood School District No. 28-1	6.12%
Florence School District No. 14-1	5.44%
Great Plains Lutheran School	7.75%
Hamlin School District No. 28-3	0.00%
Henry School District No. 14-2	3.63%
Summit School District No. 54-6	3.00%
Watertown School District No. 14-4	69.07%
Waverly South Shore School District 14-5	4.99%
	<u><u>100.00%</u></u>

The Co-op’s governing board is composed of three members from the school board of the largest member school district and one member from the school board from each remaining member school district. The governing board is responsible for adopting the Co-op’s budget and setting service fees at a level adequate to fund the adopted budget. The School District retains no explicit, measurable equity interest in the net position of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above. Separate financial statements for the Co-op are available from the Northeast Technical High School.

At June 30, 2025, the Co-op had total assets of \$2,486,036, total liabilities of \$144,831, and net position of \$2,341,205.

Note 10 - Post-Employment Healthcare Plan

Plan Description

The School District has a single-employer, defined-benefit healthcare plan administered by Wellmark, Inc. The plan provides medical insurance benefits to eligible retirees and their spouses as permitted by South Dakota Codified Law 6-1-16 and 13-10-3. Benefit provisions were established and may be amended during the negotiated agreement process between School District certified staff and the governing board. The health plan does not issue separately stated stand-alone financial statements.

Benefits Provided

The contribution requirements of plan members and the School District are established and may be amended during the negotiated agreement process between the School District’s certified staff and the governing board. A full-time salaried employee who retires from the School District may be eligible for retiree health insurance coverage if they were hired prior to August 1, 2008. Employees hired after August 1, 2008, are not eligible for OPEB. Employees who leave or have previously left the School District are not eligible for retirement benefits if they are re-employed after August 1, 2008. Coverage also ceases when the retiree attains the age of 65. The retiree is responsible for 100% of the full active premium rates for either single or family coverage.

Funding Policy

The School District funds the OPEB benefits on a pay-as-you-go basis; therefore, the School District’s obligation is unfunded at June 30, 2025. There are no assets accumulated in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

Employees Covered by Benefit Terms

At the valuation date of July 1, 2024, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	46
Active employees	111
	<hr/>
	157
	<hr/> <hr/>

Total OPEB Liability

The School District’s total OPEB liability of \$1,788,801 was measured as of June 30, 2025, and was determined by an actuarial valuation as of July 1, 2024.

Actuarial Assumptions

The total OPEB liability in the July 1, 2024, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	7.66% at entry to 3.15% after 25 years of service
Discount rate	5.20% *
Healthcare cost trend rates	9.00% for FY25 then reduced to ultimate rate of 4.04%

*Since the plan is not funded by an irrevocable trust, the discount rate is equal to the Bond Buyer 20-Bond General Obligation Index.

The plan has not had a formal actuarial experience study performed.

Other Assumptions

Mortality	
Teachers/Admin (Certified)	
Healthy Pre-Retirement	PubT-2010 mortality table rates. Mortality rates are projected generationally with MP-2020.
Healthy Post-Retirement	PubT-2010 mortality table rates adjusted to 108% for rates at age 65 and older. Mortality rates are projected generationally with MP-2020.
Non-Teachers/Admin (Certified)	
Healthy Pre-Retirement	PubG-2010 mortality table rates. Mortality rates are projected generationally with MP-2020.
Healthy Post-Retirement	PubG-2010 mortality table rates adjusted to 93% for rates at ages less than 75, with the adjustment increased by 2% per year beginning at age 75 until reaching 111% of rates at age 83 and older. Mortality rates are projected generationally with MP-2020.
Future Retiree Participation Rate	65%
Initial Spouse Participation Rate	35%
Age Difference	Husbands are assumed to be the same age as their wife.
Turnover	Rates based on select and ultimate table with rates based on service for the first five years of employment and rates based on age after five years of employment.
Disability	None assumed

Balance at July 1, 2024	\$ 2,088,699
Service cost	39,246
Interest cost	76,243
Difference between expected and actual experience	(211,830)
Changes of assumptions	(934)
Benefit payments	(202,623)
Total changes	<u>(299,898)</u>
Balance at June 30, 2025	<u><u>\$ 1,788,801</u></u>

Sensitivity of the Total OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the School District, as well as what the School District’s total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount Rate	4.20%	5.20%	6.20%
Total OPEB Liability	\$ 1,878,680	\$ 1,788,801	\$ 1,703,054

The following presents the total OPEB liability of the School District, as well as what the School District’s total OPEB liability would be if it were calculated using a healthcare cost trend rate 1 percentage point lower and 1 percentage point higher than the current healthcare cost trend rate:

	<u>1% Decrease in Healthcare Trend Rate</u>	<u>Selected Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
Healthcare Trend Rate	8.00%	9.00%	10.00%
Total OPEB Liability	\$ 1,687,017	\$ 1,788,801	\$ 1,900,395

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the year ended June 30, 2025, the School District recognized a decrease of health insurance expense of \$293,827 due to OPEB. At June 30, 2025, the School District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 74,651	\$ 157,275
Changes of assumptions	<u>18,358</u>	<u>15,830</u>
Total	<u><u>\$ 93,009</u></u>	<u><u>\$ 173,105</u></u>

Deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Years Ended June 30,</u>	<u>Amount</u>
2026	\$ 555
2027	40,330
2028	39,211
	<u>\$ 80,096</u>

Note 11 - Litigation

At June 30, 2025, the School District was not involved in any litigation material to the financial statements.

Note 12 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2025, the School District managed its risks as follows:

Employee Health Insurance

The School District has established a self-insurance fund for the purpose of paying claims of the employee group health care benefit plan. Premiums are paid by both the School District and the School District's employees and are charged against the appropriate fund. Stop loss insurance is provided through a private insurance carrier for claims exceeding an individual deductible of \$125,000 per member and an aggregating individual deductible of \$156,250 for all members that exceed the individual stop loss deductible. At June 30, 2025, an estimated liability of \$631,142 was accrued for incurred but not reported claims. This estimate was based on information obtained from the plan's third-party administrator and historical claim experience. The self-insurance fund is reported as an internal service fund in these financial statements.

The School District is responsible for deficiencies, if any, resulting from claims paid in excess of premiums received. At June 30, 2025, the health insurance internal service fund had a net position balance of \$2,450,339.

The following is a history of the claims activity for the fund for the years ended June 30, 2025, 2024, and 2023, respectively.

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Amount of claim liabilities, beginning of year	\$ 724,453	\$ 773,035	\$ 936,877
Incurred claims	8,907,791	8,156,501	9,004,662
Claims paid	<u>(8,726,185)</u>	<u>(8,205,083)</u>	<u>(9,168,504)</u>
Amount of claim liabilities, end of year	<u>\$ 906,059</u>	<u>\$ 724,453</u>	<u>\$ 773,035</u>

Workers' Compensation Insurance

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool (the Fund) which provides workers' compensation insurance coverage for participating members of the Fund. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of workers' compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to, and cooperate with, the Fund to resolve any worker's compensation claims. The School District pays an annual premium to provide workers' compensation coverage for its employees under a retrospectively rated policy, and the premiums are accrued based on the ultimate cost of the experience-to-date of the Fund members. The School District may also be responsible for additional assessments in the event the Fund 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 Fund of all participants for the year in which the shortfall occurs. The Fund provides loss coverage to all participants through pool-retained risk retention and through insurance coverage purchased by the Fund in excess of the retained risk. The Fund pays the first \$500,000 of any claim per individual. The Fund 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 four years.

Liability Insurance

The School District purchases liability insurance for risks related to torts; theft of 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.

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 year ended June 30, 2025, no claims for unemployment benefits were paid. At June 30, 2025, no claims had been filed for unemployment benefits and none significant are anticipated in the next fiscal year.

Note 13 - Pension Plan**Plan Information**

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

Benefits Provided

SDRS has four classes of members: Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation 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. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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% 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 or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

Legislation enacted in 2021 reduced the minimum COLA from 0.5% to 0.0%.

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% of salary; Class B judicial members, 9% of salary; and, Class B public safety members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2025, 2024, and 2023, were \$2,409,961, \$2,352,642, and \$2,204,321, respectively, equal to the required contributions each year.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2024, SDRS is 100.00% funded and, accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of the SDRS, for the School District as of the measurement period ending June 30, 2024, and reported by the School District as of June 30, 2025, are as follows:

Proportionate share of total pension liability	\$ 207,607,003
Less proportionate share of net position restricted for pension benefits	<u>207,663,336</u>
 Proportionate share of net pension liability (asset)	 <u><u>\$ (56,333)</u></u>

At June 30, 2025, the School District reported a liability (asset) of (\$56,333) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2024, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2024, the School District's proportion was 1.39163%, which is a decrease of .032701% from its proportion measured as of June 30, 2023.

For the year ended June 30, 2025, the School District recognized an increase of pension expense of \$1,502,999. At June 30, 2025, 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	\$ 5,216,458	\$ -
Changes in assumption	928,763	7,079,554
Net difference between projected and actual earnings on pension plan investments	2,121,912	-
Changes in proportion and difference between School District contributions and proportionate share of contributions	148,765	-
School District contributions subsequent to the measurement date	<u>2,409,960</u>	<u>-</u>
Total	<u>\$ 10,825,858</u>	<u>\$ 7,079,554</u>

There is \$2,409,960 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:	Amount
2026	\$ (1,907,010)
2027	2,767,932
2028	301,709
2029	<u>173,713</u>
Total	<u>\$ 1,336,344</u>

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service.
Discount rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%.
Future COLAs	1.71%

Mortality Rates

All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020

Active and Terminated Vested Members:

Teachers, Certified Regents, and Judicial: PubT-2010

Other Class A Members: PubG-2010

Public Safety Members: PubS-2010

Retired Members:

Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65

Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above

Public Safety Retirees: PubS-2010, 102% of rates at all ages

Beneficiaries:

PubG-2010 contingent survivor mortality table

Disabled Members:

Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2024, valuation were based on the results of an actuarial experience study for the period of July 1, 2016, to June 30, 2021.

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 weighting 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, 2024, (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>
Public Equity	56.3%	3.6%
Investment Grade Debt	22.8%	2.3%
High Yield Debt	7.0%	2.8%
Real Estate	12.0%	4.0%
Cash	1.9%	0.8%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of Liability (Asset) to Changes in the Discount Rate

The following presents the School District’s proportionate share of net pension liability (asset) calculated using the discount rate of 6.50% as well as what the School’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>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 28,625,298	\$ (56,333)	\$ (23,526,841)

Pension Plan Fiduciary Net Position

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

Note 14 - Interfund Balances and Interfund Transfers

At June 30, 2025, the following funds had interfund balances:

- The Food Service Fund has a due from the LATC Daycare Fund in the amount of \$2,656.
- The Bookstore Fund has a due from the LATC Post Secondary Fund in the amount of \$4,235.
- The LATC Food Service Fund has a due from the LATC Post Secondary Fund in the amount of \$22,610.

The purpose of the interfund balances is for reimbursement of expenses that were incurred during 2025 but not reimbursed until subsequent to June 30, 2025.

During the year ended June 30, 2025, the following interfund transfers occurred:

- The Capital Outlay Fund transferred \$1,200,000 to the General Fund to cover certain operating expenses.
- The LATC Post Secondary Fund transferred \$15,000 to the Financial Aid Fund to cover certain operating expenses.

Note 15 - Subsequent Events

Subsequent to year-end, the School District approved or entered into contracts for the following significant projects:

- Entered into an engineering contract for architectural and engineering design services for the renovation of the LATC student center in the amount of \$245,000.
- Approved a project development agreement for cooling upgrades at Lincoln and Jefferson Elementary Schools, total cost not to exceed \$2,467,000.

Required Supplementary Information
June 30, 2025

Watertown School District No. 14-4

Watertown School District No. 14-4
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
Year Ended June 30, 2025

	2025	2024	2023	2022	2021	2020	2019
Service cost	\$ 39,246	\$ 43,945	\$ 46,564	\$ 74,913	\$ 82,209	\$ 111,696	\$ 108,198
Interest	76,243	72,861	73,851	48,401	52,830	113,690	118,609
Difference between expected and actual experience	(211,830)	136,591	58,925	(141,254)	(908,081)	-	119,057
Changes of assumptions	(934)	(38,706)	85,804	(138,556)	(430,472)	255,710	296,745
Benefit payments	<u>(202,623)</u>	<u>(177,079)</u>	<u>(155,845)</u>	<u>(134,502)</u>	<u>(118,842)</u>	<u>(124,076)</u>	<u>(114,872)</u>
Net change in total OPEB liability	(299,898)	37,612	109,299	(290,998)	(1,322,356)	357,020	527,737
Total OPEB liability - beginning	<u>2,088,699</u>	<u>2,051,087</u>	<u>1,941,788</u>	<u>2,232,786</u>	<u>3,555,142</u>	<u>3,198,122</u>	<u>2,670,385</u>
Total OPEB liability - ending	<u>\$ 1,788,801</u>	<u>\$ 2,088,699</u>	<u>\$ 2,051,087</u>	<u>\$ 1,941,788</u>	<u>\$ 2,232,786</u>	<u>\$ 3,555,142</u>	<u>\$ 3,198,122</u>
Covered-employee payroll	\$ 7,579,780	\$ 8,934,715	\$ 9,181,127	\$ 11,147,044	\$ 11,612,670	\$ 13,608,038	\$ 14,158,927
District's total OPEB liability as a percentage of covered-employee payroll	23.60%	23.38%	22.34%	17.42%	19.23%	26.13%	22.59%

*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.

Plan Assets

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

Benefit Provision Changes

None.

Changes in Assumptions

Since the last valuation, the following changes of assumptions have been made:

- Medical plans and premiums have been updated effective as of January 1, 2024.
- The census data for this valuation is as of September 1, 2024.
- The discount rates, based on the Bond Buyer 20-Bond General Obligation Index, has been updated through the June 30, 2025, measurement/reporting date.
- The valuation's first fiscal year 2025 retiree per capita claims costs and blended premiums are based on plans and premiums as of January 1, 2024, and census data as of September 1, 2024.
- Decrement assumptions (i.e. withdrawal, retirement and mortality rates) and salary increase rates are the same assumptions used in the June 30, 2024, SDRS actuarial valuation.
- Medical trend assumption is developed based on the recent published SOA-Getzen trend rate model update for 2025.

Watertown School District No. 14-4
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 11,819,332	\$ 12,194,332	\$ 12,140,466	\$ (53,866)
1120 Prior year's ad valorem taxes	50,000	50,000	51,911	1,911
1140 Gross receipts taxes	350,000	350,000	258,271	(91,729)
1190 Penalties and interest on taxes	25,000	25,000	15,227	(9,773)
1500 Earnings on investments and deposits	216,000	401,000	378,356	(22,644)
1700 Co-curricular activities				
1710 Admissions	80,000	80,000	63,037	(16,963)
1790 Other student activity income	45,000	45,000	364,074	319,074
1900 Other revenue from local sources				
1910 Rentals	167,500	167,500	224,110	56,610
1970 Charges for services	45,000	45,000	60,314	15,314
1990 Other	337,800	337,800	518,000	180,200
2000 Revenue from intermediate sources				
2100 County sources				
2110 County apportionment	430,000	430,000	414,409	(15,591)
2200 Revenue in lieu of taxes	20,000	20,000	24,159	4,159
3000 Revenue from state sources				
3100 Grants-in-aid				
3110 Unrestricted grants-in-aid	14,701,119	14,141,119	14,090,463	(50,656)
3120 Restricted grants-in-aid	41,125	41,125	51,926	10,801
3900 Other state revenue	12,000	12,000	4,617	(7,383)
4000 Revenue from federal sources				
4100 Grants-in-aid				
4130 Unrestricted grants-in-aid received from federal government through an intermediate source	-	-	1,753	1,753
4150-4199 Restricted grants-in-aid received from federal government through the state	1,324,535	1,324,535	1,103,048	(221,487)
Total revenues	29,664,411	29,664,411	29,764,141	99,730

Watertown School District No. 14-4
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular programs				
1110 Elementary schools	8,944,668	8,944,668	8,530,085	414,583
1120 Middle/junior high schools	2,749,695	2,749,695	2,688,988	60,707
1130 High school	5,263,045	5,263,045	4,987,637	275,408
1140 Preschool services	144,050	134,497	64,500	69,997
1200 Special programs				
1210 Gifted and talented	85,135	85,135	82,029	3,106
1250 Culturally different	230,160	230,160	220,880	9,280
1270 Educationally deprived	533,040	533,040	526,234	6,806
1290 Other special programs	587,180	587,180	546,093	41,087
2000 Support services				
2100 Pupils				
2110 Attendance and social work	422,217	422,217	359,984	62,233
2120 Guidance	938,643	938,643	906,558	32,085
2130 Health	248,010	248,010	240,978	7,032
2200 Support services - instructional staff				
2210 Improvement of instruction	453,215	453,215	437,857	15,358
2220 Educational media	1,278,095	1,278,095	1,260,375	17,720
2300 Support services - general administration				
2310 Board of Education	136,530	141,530	109,757	31,773
2320 Executive administration	685,120	685,120	644,877	40,243
2400 Support services - school administration				
2410 Office of the Principal	1,925,740	1,925,740	1,910,561	15,179
2440 Title I program administration	48,530	48,530	31,786	16,744
2490 Other support services	80,945	80,945	79,577	1,368
2500 Support services - business				
2520 Fiscal services	658,750	660,700	646,802	13,898
2540 Operation and maintenance of plant	3,424,225	3,587,850	3,423,119	164,731
2550 Pupil transportation	1,342,700	1,342,800	1,164,460	178,340
2600 Support services - central				
2620 Planning	96,980	96,980	58,464	38,516
3000 Community services				
3700 Nonpublic school	118,760	118,760	75,171	43,589
4000 Nonprogrammed costs				
4400 Payments to state - unemployment	25,000	25,000	-	25,000
4500 Early retirement payments	552,140	552,140	552,140	-
5000 Debt Services				
	-	-	61,165	(61,165)
6000 Co-curricular activities				
6100 Male activities	247,085	247,085	242,314	4,771
6200 Female activities	261,900	261,900	255,257	6,643
6500 Transportation	208,500	208,500	238,181	(29,681)
6900 Combined activities	828,355	828,355	1,214,337	(385,982)
Total expenditures	<u>32,518,413</u>	<u>32,679,535</u>	<u>31,560,166</u>	<u>1,119,369</u>
Excess of Revenue over (under) Expenditures	<u>(2,854,002)</u>	<u>(3,015,124)</u>	<u>(1,796,025)</u>	<u>1,219,099</u>

Watertown School District No. 14-4
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources (Uses)				
5110 Transfers in	1,200,000	1,200,000	1,200,000	-
Total other financing sources	1,200,000	1,200,000	1,200,000	-
Net Change in Fund Balances	(1,654,002)	(1,815,124)	(596,025)	1,219,099
Fund Balance - Beginning	7,750,122	7,750,122	7,750,122	-
Fund Balance - Ending	<u>\$ 6,096,120</u>	<u>\$ 5,934,998</u>	<u>\$ 7,154,097</u>	<u>\$ 1,219,099</u>

Watertown School District No. 14-4
 Budgetary Comparison Schedule – Budgetary Basis – Capital Outlay Fund
 Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 7,712,440	\$ 7,712,440	\$ 7,652,980	\$ (59,460)
1120 Prior year's ad valorem taxes	25,000	25,000	29,130	4,130
1190 Penalties and interest on taxes	10,000	10,000	9,123	(877)
1500 Earnings on investments and deposits	40,000	267,000	211,817	(55,183)
1900 Other revenue from local sources				
1920 Contributions and donations	200,000	281,600	306,647	25,047
1990 Other	148,000	159,900	139,781	(20,119)
4000 Revenue from federal sources				
4900 Other federal revenue	125,425	125,425	125,426	1
Total revenues	8,260,865	8,581,365	8,474,904	(106,461)
Expenditures				
1000 Instruction				
1100 Regular programs				
1110 Elementary schools	1,022,000	1,022,000	643,021	378,979
1120 Middle/junior high schools	49,000	49,000	48,737	263
1130 High school	262,000	262,000	255,774	6,226
1200 Special programs				
1220 Programs for special education	17,000	17,000	6,632	10,368
2000 Support services				
2300 Support services - general administration				
2320 Executive administration	5,000	5,000	5,164	(164)
2500 Support services - business				
2520 Fiscal services	106,000	106,000	90,946	15,054
2540 Operation and maintenance of plant	12,484,370	13,448,770	11,437,097	2,011,673
2550 Pupil transportation	512,300	512,300	516,570	(4,270)
5000 Debt services	2,373,130	2,405,725	2,431,995	(26,270)
6000 Co-curricular activities				
6900 Combined activities	177,000	177,000	160,301	16,699
Total expenditures	17,007,800	18,004,795	15,596,237	2,408,558
Excess of Revenue over (under) Expenditures	(8,746,935)	(9,423,430)	(7,121,333)	2,302,097
Other Financing Sources (Uses)				
8110 Transfers out	(1,200,000)	(1,200,000)	(1,200,000)	-
5120 Proceeds from long-term debt	3,200,000	5,000,000	4,865,000	(135,000)
5130 Sale of surplus property	15,000	866,000	866,136	136
8150 Premiums on bonds issued	-	-	195,811	195,811
Total other financing sources (uses)	2,015,000	4,666,000	4,726,947	60,947
Net Change in Fund Balances	(6,731,935)	(4,757,430)	(2,394,386)	2,363,044
Fund Balance - Beginning	7,297,854	7,297,854	7,297,854	-
Fund Balance - Ending	<u>\$ 565,919</u>	<u>\$ 2,540,424</u>	<u>\$ 4,903,468</u>	<u>\$ 2,363,044</u>

Watertown School District No. 14-4
 Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund
 Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 4,343,460	\$ 4,970,770	\$ 5,144,644	\$ 173,874
1120 Prior year's ad valorem taxes	13,500	13,500	19,102	5,602
1190 Penalties and interest on taxes	6,000	6,000	6,067	67
1300 Tuition and fees				
1310 Regular day school tuition	15,000	15,000	-	(15,000)
1500 Earnings on investments and deposits	6,000	81,500	90,467	8,967
1900 Other revenue from local sources				
1970 Charges for services	62,000	62,000	25,599	(36,401)
1990 Other	1,000	1,000	1,563	563
3000 Revenue from state sources				
3100 Grants-in-aid				
3120 Restricted grants-in-aid	3,029,855	2,756,935	2,756,931	(4)
4000 Revenue from federal sources				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from federal government through the state	1,037,000	1,037,000	1,033,762	(3,238)
Total revenues	<u>8,513,815</u>	<u>8,943,705</u>	<u>9,078,135</u>	<u>134,430</u>
Expenditures				
1000 Instruction				
1200 Special programs				
1220 Programs for special education	6,209,130	6,319,490	5,906,865	412,625
1230 Coordinated early intervening services instruction	5,000	5,000	-	5,000
2000 Support services				
2100 Pupils				
2130 Health	198,780	198,780	199,292	(512)
2140 Psychological	422,950	422,950	315,124	107,826
2150 Speech pathology	1,069,875	1,069,875	832,062	237,813
2160 Audiology services	15,500	15,500	10,840	4,660
2170 Student therapy services	515,345	515,345	525,678	(10,333)
2200 Support services - instructional staff				
2210 Improvement of instruction	98,895	98,895	84,192	14,703
2220 Educational media	22,000	22,000	9,004	12,996
2600 Support services - central				
2620 Planning	27,000	27,000	-	27,000
2700 Support services - special education				
2710 Administrative costs	187,665	187,665	172,517	15,148
2730 Transportation costs	154,200	154,200	121,417	32,783
2750 Other special education costs	-	-	628	(628)
5000 Debt Service	-	-	1,020	(1,020)
Total expenditures	<u>8,926,340</u>	<u>9,036,700</u>	<u>8,178,639</u>	<u>858,061</u>
Net Change in Fund Balances	(412,525)	(92,995)	899,496	992,491
Fund Balance - Beginning	<u>2,060,299</u>	<u>2,060,299</u>	<u>2,060,299</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,647,774</u>	<u>\$ 1,967,304</u>	<u>\$ 2,959,795</u>	<u>\$ 992,491</u>

Watertown School District No. 14-4
 Budgetary Comparison Schedule – Budgetary Basis – LATC Post Secondary Fund
 Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1400 Post secondary program tuition and fees	\$ 7,616,000	\$ 7,616,000	\$ 7,653,707	\$ 37,707
1500 Earnings on investments and deposits	100,000	100,000	429,188	329,188
1800 Post secondary				
1820 Resales/services - occupational programs	241,100	241,100	304,725	63,625
1830 Resales/services - parts department	277,000	277,000	269,502	(7,498)
1840 State fees	866,000	866,000	844,843	(21,157)
1850 Corporate education fees	300,000	300,000	499,216	199,216
1860 Local fees	3,564,500	3,638,350	4,094,144	455,794
1900 Other revenue from local sources				
1910 Rentals	180,000	377,000	536,554	159,554
1920 Contributions and donations	4,165,000	4,297,000	3,435,869	(861,131)
1970 Charges for services	462,200	487,200	333,884	(153,316)
1990 Other	1,021,600	1,310,000	1,583,334	273,334
3000 Revenue from state sources				
3100 Grants-in-aid				
3110 Unrestricted grants-in-aid	11,682,723	11,682,723	11,802,167	119,444
3120 Restricted grants-in-aid	3,882,978	4,169,085	3,379,516	(789,569)
3900 Other state revenue	1,198,129	1,230,129	1,113,748	(116,381)
4000 Revenue from federal sources				
4100 Grants-in-aid				
4140 Restricted grants-in-aid received directly from federal government	1,128,777	1,140,577	916,438	(224,139)
4150-4199 Restricted grants-in-aid received from federal government through the state	710,000	710,000	700,874	(9,126)
4900 Other federal revenue	2,000	2,000	2,064	64
Total revenues	<u>37,398,007</u>	<u>38,444,164</u>	<u>37,899,773</u>	<u>(544,391)</u>

Watertown School District No. 14-4
 Budgetary Comparison Schedule – Budgetary Basis – LATC Post Secondary Fund
 Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1300 Adult continuing education programs				
1390 Other adult continuing education programs	234,265	234,265	195,321	38,944
1500-1999 Post secondary occupational programs	22,735,261	23,014,851	20,961,603	2,053,248
2000 Support services				
2100 Pupils				
2120 Guidance	2,175,276	2,267,326	2,112,592	154,734
2200 Support services - instructional staff				
2210 Improvement of instruction	586,811	601,416	572,960	28,456
2220 Educational media	1,105,282	1,165,887	1,095,519	70,368
2300 Support services - general administration				
2310 Board of Education	71,230	82,730	80,496	2,234
2320 Executive administration	1,822,241	1,977,241	1,817,799	159,442
2400 Support services - school administration				
2420 Vocational school - directors office	1,054,942	1,075,092	1,055,652	19,440
2430 Financial aid administration	344,958	346,608	310,260	36,348
2490 Other support services	421,533	421,533	434,403	(12,870)
2500 Support services - business				
2520 Fiscal services	320,050	321,700	320,548	1,152
2530 Facilities acquisition and construction	4,670,662	5,196,877	4,413,951	782,926
2540 Operation and maintenance of plant	2,742,604	2,840,854	2,752,587	88,267
2800 Resale services				
2810 Post secondary resales/service	12,000	12,000	10,161	1,839
2820 RIS - precision production	355,228	402,428	421,630	(19,202)
2900 Other support services	18,000	29,000	35,969	(6,969)
4000 Nonprogrammed charges				
4400 Payments to state - unemployment	5,000	12,000	11,095	905
4500 Early retirement payments	202,510	202,510	196,745	5,765
5000 Debt service	-	-	71,163	(71,163)
6000 Co-curricular activities				
6900 Combined activities	-	-	150,687	(150,687)
Total expenditures	<u>38,877,853</u>	<u>40,204,318</u>	<u>37,021,141</u>	<u>3,183,177</u>
Excess of Revenue over (under) Expenditures	<u>(1,479,846)</u>	<u>(1,760,154)</u>	<u>878,632</u>	<u>2,638,786</u>
Other Financing Sources (Uses)				
8110 Transfers out	-	(15,000)	(15,000)	-
5124 Lease proceeds	-	-	19,161	19,161
5130 Sale of surplus property	30,000	30,000	8,468	(21,532)
Total other financing sources (uses)	<u>30,000</u>	<u>15,000</u>	<u>12,629</u>	<u>(2,371)</u>
Net Change in Fund Balances	(1,449,846)	(1,745,154)	891,261	2,636,415
Fund Balance - Beginning	5,543,694	5,543,694	5,543,694	-
Fund Balance - Ending	<u>\$ 4,093,848</u>	<u>\$ 3,798,540</u>	<u>\$ 6,434,955</u>	<u>\$ 2,636,415</u>

Watertown School District No. 14-4
 Budgetary Comparison Schedule – Budgetary Basis – Financial Aid Fund
 Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1500 Earnings on investments and deposits	\$ 2,000	\$ 2,000	\$ -	\$ (2,000)
1900 Other revenue from local sources				
1990 Other	128,000	128,000	29,776	(98,224)
3000 Revenue from state sources				
3100 Grants-in-aid				
3120 Restricted grants-in-aid	98,500	98,500	122,066	23,566
4000 Revenue from federal sources				
4100 Grants-in-aid				
4140 Restricted grants-in-aid received directly from federal government	13,038,500	13,038,500	10,398,356	(2,640,144)
Total revenues	<u>13,267,000</u>	<u>13,267,000</u>	<u>10,550,198</u>	<u>(2,716,802)</u>
Expenditures				
4000 Nonprogrammed charges				
4200 Student financial aid	13,267,000	13,267,000	10,567,681	2,699,319
Total expenditures	<u>13,267,000</u>	<u>13,267,000</u>	<u>10,567,681</u>	<u>2,699,319</u>
Excess of Revenue over (under) Expenditures	<u>-</u>	<u>-</u>	<u>(17,483)</u>	<u>(17,483)</u>
Other Financing Sources (Uses)				
5110 Transfers in	-	-	15,000	(15,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>(15,000)</u>
Net Change in Fund Balances	-	-	(2,483)	(32,483)
Fund Balance - Beginning	10,256	10,256	10,256	-
Fund Balance - Ending	<u>\$ 10,256</u>	<u>\$ 10,256</u>	<u>\$ 7,773</u>	<u>\$ (32,483)</u>

Note 1 - Budgets 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 School Board meeting in May of each year, the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding 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% 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 money is 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.
11. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Note 2 - U.S. GAAP and Budgetary Accounting Basis Differences

The School District is reporting financial position, results of operations, and changes in fund balances on the basis of GAAP, while the budgetary comparison schedules are presented on the budgetary basis to provide meaningful comparison of actual results with the budget. There are no major differences between the budgetary basis and the GAAP basis presented.

Watertown School District No. 14-4
 Schedule of Employer's Share of Net Pension Liability (Asset)
 Year Ended June 30, 2025

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Employer's Percentage of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</u>	<u>Employer's Covered Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)</u>
SDRS	6/30/2025	1.3916%	\$ (56,333)	\$ 38,827,837	-0.1%	100.00%
SDRS	6/30/2024	1.4243%	(139,021)	36,714,974	-0.4%	100.10%
SDRS	6/30/2023	1.4770%	(139,589)	35,248,226	-0.4%	100.10%
SDRS	6/30/2022	1.5276%	(11,698,511)	34,635,807	-33.8%	105.52%
SDRS	6/30/2021	1.5062%	(65,414)	33,028,183	-0.2%	100.04%
SDRS	6/30/2020	1.5163%	(160,684)	32,173,075	-0.5%	100.09%
SDRS	6/30/2019	1.5309%	(35,703)	31,818,773	-0.1%	100.02%
SDRS	6/30/2018	1.5315%	(138,984)	31,084,082	-0.4%	100.10%
SDRS	6/30/2017	1.4677%	4,957,654	27,889,214	17.8%	96.89%
SDRS	6/30/2016	1.4888%	(6,314,461)	27,170,807	-23.2%	104.10%

Watertown School District No. 14-4
 Schedule of Employer's Contributions
 Year Ended June 30, 2025

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered Payroll (d)</u>	<u>Contributions as a Percentage of Covered Payroll (b/d)</u>
SDRS	6/30/2025	\$ 2,409,961	\$ 2,409,961	\$ -	\$ 40,141,984	6.0%
SDRS	6/30/2024	2,352,642	2,352,642	-	38,827,837	6.1%
SDRS	6/30/2023	2,204,321	2,204,321	-	36,714,974	6.0%
SDRS	6/30/2022	2,116,157	2,116,157	-	35,248,226	6.0%
SDRS	6/30/2021	2,079,919	2,079,919	-	34,635,807	6.0%
SDRS	6/30/2020	1,983,411	1,983,411	-	33,028,183	6.0%
SDRS	6/30/2019	1,934,456	1,934,456	-	32,173,075	6.0%
SDRS	6/30/2018	1,909,134	1,909,134	-	31,818,773	6.0%
SDRS	6/30/2017	1,866,698	1,866,698	-	31,084,082	6.0%
SDRS	6/30/2016	1,673,671	1,673,671	-	27,889,214	6.0%

Changes from Prior Valuation

The June 30, 2024, actuarial valuation reflects no changes to the plan provisions or actuarial methods and one change to the actuarial assumptions from the June 30, 2023, actuarial valuation.

The details of the changes since the last valuation are as follows:

Benefit Provision Changes

During the 2024 legislative session, no significant SDRS benefit changes were made.

Actuarial Method Changes

No changes in actuarial methods were made since the prior valuation.

Actuarial Assumption Changes

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% 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%.

As of June 30, 2023, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was less than 100% and the July 2024 SDRS COLA was limited to a restricted maximum of 1.91%. For the June 30, 2023, actuarial valuation, future COLAs were assumed to equal the restricted maximum COLA assumption of 1.91%.

As of June 30, 2024, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2025 SDRS COLA is limited to a restricted maximum of 1.71%. The July 2025 SDRS COLA will equal inflation, between 0% and 1.71%. For this June 30, 2024, actuarial valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.71%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027, actuarial valuation, and any recommended changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027, actuarial valuation.

Supplementary Information
June 30, 2025

Watertown School District No. 14-4

Watertown School District No. 14-4
Combining Balance Sheets – Nonmajor Governmental Funds
June 30, 2025

	<u>Perkins Fund</u>	<u>Arrow Education Foundation</u>	<u>Totals</u>
Assets			
101 Cash and cash equivalents	\$ -	\$ 163,853	\$ 163,853
180 Investments	-	3,534,025	3,534,025
	<u>\$ -</u>	<u>\$ 3,697,878</u>	<u>\$ 3,697,878</u>
Liabilities			
402 Accounts payable	\$ -	\$ 8,369	\$ 8,369
Total liabilities	<u>-</u>	<u>8,369</u>	<u>8,369</u>
Fund Balances			
720 Restricted for Arrow Education Foundation	<u>-</u>	<u>3,689,509</u>	<u>3,689,509</u>
Total fund balances	<u>-</u>	<u>3,689,509</u>	<u>3,689,509</u>
	<u>\$ -</u>	<u>\$ 3,697,878</u>	<u>\$ 3,697,878</u>

Watertown School District No. 14-4
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances –
Nonmajor Governmental Funds
Year Ended June 30, 2025

	Perkins Fund	Arrow Education Foundation	Totals
Revenues			
1000 Revenue from local sources			
1500 Earnings on investments and deposits	\$ -	\$ 280,539	\$ 280,539
1900 Other revenue from local sources			
1920 Contributions and donations	-	399,910	399,910
1990 Other	-	59,441	59,441
Total revenues	-	739,890	739,890
Expenditures			
2000 Support services			
2500 Support services - business			
2520 Fiscal services	-	97,795	97,795
2590 Other	-	94,246	94,246
4000 Nonprogrammed charges			
4200 Student financial aid - Perkins liquidation	54	-	54
4900 Other nonprogrammed costs	-	227,191	227,191
Total expenditures	54	419,232	419,286
Net Change in Fund Balances	(54)	320,658	320,604
Fund Balance - Beginning	54	3,368,851	3,368,905
Fund Balance - Ending	\$ -	\$ 3,689,509	\$ 3,689,509

Watertown School District No. 14-4
Combining Statements of Net Position – Nonmajor Proprietary Funds
June 30, 2025

	Enterprise Funds							Totals
	Food Service Fund	Concessions Fund	Drivers Education Fund	Pre-School Services Fund	Bookstore Fund	LATC Food Service Fund	LATC Daycare Fund	
Assets								
Current assets								
101 Cash and cash equivalents	\$ 103,611	\$ 23,159	\$ 11,327	\$ 44,051	\$ 601,315	\$ 209,609	\$ 352,454	\$ 1,345,526
180 Investments	-	8,143	577	10,511	383,024	110,500	92,367	605,122
120 Accounts receivable, net	-	-	-	215	206,384	-	42,392	248,991
130 Due from other funds	2,656	-	-	-	4,235	22,610	-	29,501
140 Due from other governments	715	-	-	-	-	-	17,168	17,883
170 Inventory of supplies	3,205	3,810	-	-	-	296	-	7,311
171 Inventory of stores purchased for resale	3,403	-	-	-	828,941	13,679	-	846,023
172 Inventory of donated food	6,955	-	-	-	-	-	-	6,955
192 Prepaid expenses	-	-	-	-	30,706	-	-	30,706
Total current assets	120,545	35,112	11,904	54,777	2,054,605	356,694	504,381	3,138,018
Noncurrent assets								
196 Net pension asset	963	19	51	112	196	204	259	1,804
200 Capital assets								
204 Machinery and equipment - local funds	669,617	5,847	-	-	12,979	53,805	175,125	917,373
Less accumulated depreciation	(455,977)	(4,970)	-	-	(12,979)	(23,901)	(16,843)	(514,670)
Total noncurrent assets	214,603	896	51	112	196	30,108	158,541	404,507
Deferred outflows of resources								
252 Pension related deferred outflows	185,111	3,651	9,851	21,568	37,648	39,253	49,759	346,841
	\$ 520,259	\$ 39,659	\$ 21,806	\$ 76,457	\$ 2,092,449	\$ 426,055	\$ 712,681	\$ 3,889,366

Watertown School District No. 14-4
Combining Statements of Net Position – Nonmajor Proprietary Funds
June 30, 2025

	Enterprise Funds							Totals
	Food Service Fund	Concessions Fund	Drivers Education Fund	Pre-School Services Fund	Bookstore Fund	LATC Food Service Fund	LATC Daycare Fund	
Liabilities and Net Position								
Liabilities								
400 Current liabilities								
402 Accounts payable	\$ 748	\$ 759	\$ 3,632	\$ -	\$ 84,989	\$ 15,083	\$ 2,720	\$ 107,931
404 Contracts payable	275	-	-	16,005	133	2,196	21,711	40,320
410 Due to other funds	-	-	-	-	-	-	2,656	2,656
450 Payroll deductions and withholdings and employer matching payable	872	-	-	3,853	10	271	4,442	9,448
471 Deposits payable	96,678	-	-	-	-	-	-	96,678
475 Unearned revenue	-	-	-	-	329,068	-	-	329,068
Total current liabilities	98,573	759	3,632	19,858	414,200	17,550	31,529	586,101
Deferred inflows of resources								
554 Pension related deferred inflows	121,053	2,388	6,442	14,104	24,620	25,670	32,540	226,817
Net Position								
706 Net investment in capital assets	213,640	877	-	-	-	29,904	158,282	402,703
707.2 Restricted for pension benefits	65,021	1,282	3,460	7,576	13,224	13,787	17,478	121,828
708 Unrestricted net position	21,972	34,353	8,272	34,919	1,640,405	339,144	472,852	2,551,917
Total net position	300,633	36,512	11,732	42,495	1,653,629	382,835	648,612	3,076,448
	\$ 520,259	\$ 39,659	\$ 21,806	\$ 76,457	\$ 2,092,449	\$ 426,055	\$ 712,681	\$ 3,889,366

Watertown School District No. 14-4
Combining Statements of Revenues, Expenses, and Changes in Net Position – Nonmajor Proprietary Funds
Year Ended June 30, 2025

	Enterprise Funds							Totals
	Food Service Fund	Concessions Fund	Drivers Education Fund	Pre-School Services Fund	Bookstore Fund	LATC Food Service Fund	LATC Daycare Fund	
Operating Revenues								
Sales								
1340 Preschool tuition	\$ -	\$ -	\$ -	\$ 130,175	\$ -	\$ -	\$ -	\$ 130,175
1610 To pupils	746,688	-	62,918	-	-	710,178	-	1,519,784
1620 To adults	15,573	-	-	-	-	-	-	15,573
1630 Ala carte	165,605	-	-	-	-	-	-	165,605
1690 Other	26,669	129,490	-	-	-	25	-	156,184
1720 Bookstore sales	-	-	-	-	4,092,530	-	-	4,092,530
1980 Daycare charges for services	-	-	-	-	-	-	627,526	627,526
Total operating revenues	<u>954,535</u>	<u>129,490</u>	<u>62,918</u>	<u>130,175</u>	<u>4,092,530</u>	<u>710,203</u>	<u>627,526</u>	<u>6,707,377</u>
Operating Expenses								
100 Salaries	804,426	52,735	49,810	96,025	139,815	216,903	372,979	1,732,693
200 Employee benefits	271,764	7,999	8,351	15,742	61,337	56,625	95,546	517,364
300 Purchased services	3,911	-	-	-	143,402	17,760	21,778	186,851
400 Supplies	40,431	2,789	3,798	-	6,895	44,390	3,427	101,730
461 Cost of sales - purchased	937,434	74,402	-	-	3,483,384	371,824	31,851	4,898,895
462 Cost of sales - donated	103,462	-	-	-	-	-	-	103,462
600 Other	5,053	360	-	-	-	-	4,079	9,492
900 Depreciation	31,791	390	-	-	-	2,063	7,143	41,387
Total operating expenses	<u>2,198,272</u>	<u>138,675</u>	<u>61,959</u>	<u>111,767</u>	<u>3,834,833</u>	<u>709,565</u>	<u>536,803</u>	<u>7,591,874</u>
Operating Income (Loss)	<u>(1,243,737)</u>	<u>(9,185)</u>	<u>959</u>	<u>18,408</u>	<u>257,697</u>	<u>638</u>	<u>90,723</u>	<u>(884,497)</u>

Watertown School District No. 14-4
Combining Statements of Revenues, Expenses, and Changes in Net Position – Nonmajor Proprietary Funds
Year Ended June 30, 2025

	Enterprise Funds							Totals
	Food Service Fund	Concessions Fund	Drivers Education Fund	Pre-School Services Fund	Bookstore Fund	LATC Food Service Fund	LATC Daycare Fund	
Nonoperating Revenue								
Local sources								
1500 Investment earnings	12,054	1,141	26	479	40,763	12,727	13,301	80,491
1920 Contributions and donations	-	-	-	-	-	-	55,000	55,000
1990 Other	-	-	-	-	-	-	5,000	5,000
State sources								
3810 Cash reimbursements	5,239	-	-	-	-	-	-	5,239
Federal sources								
4150 Federal grants	-	-	-	-	-	-	15,000	15,000
4810 Cash reimbursements	878,018	-	-	-	-	-	34,043	912,061
4820 Donated food	103,462	-	-	-	-	-	-	103,462
Total nonoperating revenue	<u>998,773</u>	<u>1,141</u>	<u>26</u>	<u>479</u>	<u>40,763</u>	<u>12,727</u>	<u>122,344</u>	<u>1,176,253</u>
Change in Net Position	(244,964)	(8,044)	985	18,887	298,460	13,365	213,067	291,756
Net Position - Beginning	<u>545,597</u>	<u>44,556</u>	<u>10,747</u>	<u>23,608</u>	<u>1,355,169</u>	<u>369,470</u>	<u>435,545</u>	<u>2,784,692</u>
Net Position - Ending	<u>\$ 300,633</u>	<u>\$ 36,512</u>	<u>\$ 11,732</u>	<u>\$ 42,495</u>	<u>\$ 1,653,629</u>	<u>\$ 382,835</u>	<u>\$ 648,612</u>	<u>\$ 3,076,448</u>

Watertown School District No. 14-4
Combining Statements of Cash Flows – Nonmajor Proprietary Funds
Year Ended June 30, 2025

	Enterprise Funds							Totals
	Food Service Fund	Concessions Fund	Drivers Education Fund	Pre-School Services Fund	Bookstore Fund	LATC Food Service Fund	LATC Daycare Fund	
Cash Flows from (used for) Operating Activities								
Cash receipts from customers	\$ 966,881	\$ 129,490	\$ 62,918	\$ 129,960	\$ 3,963,739	\$ 710,203	\$ 585,150	\$ 6,548,341
Payments to employees	(1,049,595)	(59,671)	(55,909)	(99,485)	(190,477)	(268,389)	(452,518)	(2,176,044)
Payments to suppliers	(980,288)	(75,677)	(4,982)	-	(4,036,139)	(427,998)	(60,884)	(5,585,968)
Net Cash from (used for) Operating Activities	<u>(1,063,002)</u>	<u>(5,858)</u>	<u>2,027</u>	<u>30,475</u>	<u>(262,877)</u>	<u>13,816</u>	<u>71,748</u>	<u>(1,213,671)</u>
Cash Flows from Noncapital Financing Activities								
Operating grants and contributions	-	-	-	-	-	-	75,000	75,000
Operating subsidies	883,442	-	-	-	-	-	34,043	917,485
Net Cash from Noncapital Financing Activities	<u>883,442</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,043</u>	<u>992,485</u>
Cash Flows used for Capital and Related Financing Activities								
Purchase of capital assets	-	-	-	-	-	(12,800)	(108,728)	(121,528)
Net Cash used for Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,800)</u>	<u>(108,728)</u>	<u>(121,528)</u>
Cash Flows from Investing Activities								
Sale of investments	238,215	-	-	-	-	-	-	238,215
Cash received for interest	3,829	770	-	-	22,658	7,690	9,090	44,037
Net Cash from Investing Activities	<u>242,044</u>	<u>770</u>	<u>-</u>	<u>-</u>	<u>22,658</u>	<u>7,690</u>	<u>9,090</u>	<u>282,252</u>
Net Change in Cash and Cash Equivalents	62,484	(5,088)	2,027	30,475	(240,219)	8,706	81,153	(60,462)
Cash and Cash Equivalents, Beginning of Year	41,127	28,247	9,300	13,576	841,534	200,903	271,301	1,405,988
Cash and Cash Equivalents, End of Year	<u>\$ 103,611</u>	<u>\$ 23,159</u>	<u>\$ 11,327</u>	<u>\$ 44,051</u>	<u>\$ 601,315</u>	<u>\$ 209,609</u>	<u>\$ 352,454</u>	<u>\$ 1,345,526</u>

Watertown School District No. 14-4
Combining Statements of Cash Flows – Nonmajor Proprietary Funds
Year Ended June 30, 2025

	Enterprise Funds							Totals
	Food Service Fund	Concessions Fund	Drivers Education Fund	Pre-School Services Fund	Bookstore Fund	LATC Food Service Fund	LATC Daycare Fund	
Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities								
Operating income (loss)	\$ (1,243,737)	\$ (9,185)	\$ 959	\$ 18,408	\$ 257,697	\$ 638	\$ 90,723	\$ (884,497)
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities:								
Depreciation expense	31,791	390	-	-	-	2,063	7,143	41,387
Value of donated commodities used	103,462	-	-	-	-	-	-	103,462
Change in assets and liabilities:								
Accounts receivable	-	-	-	(215)	14,910	-	(42,376)	(27,681)
Inventories	7,535	2,567	-	-	(179,720)	(6,960)	-	(176,578)
Due from other funds	44	-	-	-	(1,638)	9,106	-	7,512
Due from other governments	-	-	-	-	-	-	(1,279)	(1,279)
Prepaid expenses	-	-	-	-	(8,882)	-	-	(8,882)
Pension asset and deferred outflows	46,311	4,541	3,276	(21,680)	16,963	6,549	4,991	60,951
Accounts payable	(1,038)	(693)	(1,184)	-	(212,218)	3,830	1,574	(209,729)
Contracts payable	(8,133)	(1,128)	-	16,005	133	(901)	8,596	14,572
Payroll deductions and withholdings and employer matching payable	(980)	(86)	-	3,853	10	(115)	1,044	3,726
Due to other funds	-	-	-	-	-	-	(44)	(44)
Deposits payable	12,346	-	-	-	-	-	-	12,346
Unearned revenue	-	-	-	-	(143,701)	-	-	(143,701)
Pension liability and deferred inflows	(10,603)	(2,264)	(1,024)	14,104	(6,431)	(394)	1,376	(5,236)
Net Cash from (used for) Operating Activities	<u>\$ (1,063,002)</u>	<u>\$ (5,858)</u>	<u>\$ 2,027</u>	<u>\$ 30,475</u>	<u>\$ (262,877)</u>	<u>\$ 13,816</u>	<u>\$ 71,748</u>	<u>\$ (1,213,671)</u>
Noncash Investing, Capital and Financing Activities								
Value of commodities received	\$ 103,462	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 103,462
Gain on investments not affecting operating income (loss)	8,225	371	26	479	18,104	5,037	4,211	36,453



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

To the School Board
Watertown School District No. 14-4
Watertown, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Watertown School District No. 14-4 (the School District), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Watertown School District No. 14-4's basic financial statements and have issued our report thereon dated February 5, 2026. In our report, we expressed a disclaimer of opinion on the discretely presented component unit as the financial statements of the Lake Area Technical College Foundation have not been audited and we were not engaged to audit the Lake Area Technical College Foundation. In our report, we also expressed a qualified opinion on the aggregate remaining fund information and the governmental activities which include the Arrow Education Foundation as the financial statements of the Arrow Education Foundation have not been audited and we were not engaged to audit the Arrow Education Foundation.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Watertown School District No. 14-4'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 the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2025-001, that we consider to be a material weakness.

Report on Compliance and Other Matters

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

School District's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the School District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The School District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.



Aberdeen, South Dakota
February 5, 2026



**Independent Auditor's Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance Required by the Uniform Guidance**

The School Board
Watertown School District No. 14-4
Watertown, South Dakota

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Watertown School District No. 14-4's (the School District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the School District's major federal program for the year ended June 30, 2025. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2025.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the School District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School District's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Aberdeen, South Dakota
February 5, 2026

Watertown School District No. 14-4
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2025

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture			
Pass-Through the SD Department of Education			
Child Nutrition Cluster			
Non-Cash Assistance (Commodities)			
National School Lunch Program	10.555	2025G-CANS14004	\$ 103,462
Cash Assistance			
School Breakfast Program	10.553	2025G-CANS14004	135,157
National School Lunch Program	10.555	2025G-CANS14004	742,861
Cash Assistance Total			<u>878,018</u>
Total for Child Nutrition Cluster			<u>981,480</u>
Child and Adult Care Food Program	10.558	2025G-CACFP14004	<u>34,043</u>
Total U.S. Department of Agriculture			<u>1,015,523</u>
U.S. Department of Education			
Direct Federal Funding			
Student Financial Aid Cluster			
Federal Pell Grant Program	84.063		4,304,589
Federal Workstudy Program	84.033		68,424
Federal Supplemental Educational Opportunity Grants	84.007		65,000
Federal Direct Student Loans	84.268		<u>5,953,156</u>
Total Student Financial Aid Cluster			<u>10,391,169</u>
Education Stabilization Fund			
COVID-19 - Higher Education Emergency Relief Fund			
Institutional Portion	84.425F		127,710
Passed through the SD Department of Education			
COVID-19 - American Rescue Plan - Elementary and			
Secondary Emergency Relief Fund	84.425U	2021G-ARP14004	20,966
COVID-19 - American Rescue Plan – Elementary and			
Secondary School Emergency Relief – Homeless			
Children and Youth	84.425W	*	<u>2,297</u>
Total Education Stabilization Fund - 84.425			<u>150,973</u>
Passed through the SD Department of Education			
Title I Grants to Local Educational Agencies	84.010	2025G-GMS-14004	649,097
Migrant Education State Grant Program	84.011	2025G-GMS-14004	25,565
Career and Technical Education - Basic Grants to States	84.048	*	681,602
Supporting Effective Instruction State Grants	84.367	2025G-GMS-14004	202,550
Student Support and Academic Enrichment Program	84.424	2025G-GMS-14004	94,135
Special Education Cluster			
Special Education - Grants to States	84.027	2025G-GMS-14004	1,013,462
Special Education - Preschool Grants	84.173	2025G-GMS-14004	<u>20,300</u>
Total for Special Education Cluster			<u>1,033,762</u>
Total U.S. Department of Education			<u>13,228,853</u>

Watertown School District No. 14-4
 Schedule of Expenditures of Federal Awards
 June 30, 2025

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Commerce Manufacturing Extension Partnership	11.611		<u>765,758</u>
Total U.S. Department of Commerce			<u>765,758</u>
U.S. Department of Health and Human Services Child Care and Development Block Grant	93.575		<u>15,000</u>
Total U.S. Department of Health and Human Services			<u>15,000</u>
National Science Foundation STEM Education	47.076		<u>150,680</u>
Total National Science Foundation			<u>150,680</u>
Environmental Protection Agency Passed through the SD Department of Education Diesel Emissions Reduction Act (DERA) State Grants	66.040	*	<u>125,426</u>
Total Environmental Protection Agency			<u>125,426</u>
Total Federal Financial Assistance			<u><u>\$ 15,301,240</u></u>

* Pass-through identifying numbers were not provided.

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Watertown School District No. 14-4 (the School District) under programs of the federal government for the year ended June 30, 2025. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of the School District.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The School District has elected to use the 10% *de minimus* cost rate for specific programs.

Note 4 - Food Donation

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2025, the School District had food commodities totaling \$6,955 in inventory.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	
Discretely Presented Component Unit	Disclaimer
Aggregate Remaining Fund Information	Qualified
Governmental Activities	Qualified
All Other Opinion Units	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516 (a):	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
Student Financial Aid Cluster	
Federal Pell Grant Program	84.063
Federal Workstudy Program	84.033
FSEOG Program	84.007
Direct Loan Program	84.268
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2025-001 Auditor Preparation of Financial Statements and Audit Adjustments

Material Weakness

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

Condition: As the auditor, we prepared the financial statements and required footnote disclosures for the year ended June 30, 2025. As part of audit procedures and preparation of the financial statements, we identified and proposed various audit adjustments that were not identified by the Watertown School District’s current internal controls.

Cause: The School District’s internal controls did not identify and detect the misstatements noted during our audit, resulting in proposed audit adjustments. Additionally, the auditor was requested to prepare the complete financial statements and related required footnotes.

Effect: The presence of identified audit adjustments may affect the condition of financial information throughout the year being used by management in analysis and decision making, and increase the risk that potential misstatements remain present in the financial statements. The auditor’s preparation of the financial statements and footnotes may also affect the School District’s ability to summarize and report financial data consistent with the assertions of management.

Recommendation: We recommend management perform a thorough review of the auditor-prepared financial statements and proposed audit adjustments, as well as account balances in each fund to ensure all necessary adjustments are reflected in the financial statements in accordance with generally accepted accounting principles. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the auditor’s role in preparation of the financial statements and footnotes.

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

None



WATERTOWN SCHOOL DISTRICT No. 14-4

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Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
June 30, 2025

Prepared by Management of
Watertown School District #14-4

Summary Schedule of Prior Audit Findings

Financial Statement Findings

Finding 2024-001

Initial Fiscal Year Finding Occurred: 2021

Finding Summary: Eide Bailly LLP prepared the financial statements and required footnote disclosures for the year ended June 30, 2024. As part of audit procedures and preparation of the financial statements, they identified and proposed various audit adjustments and adjustments to the SEFA, some of which were material, that were not identified by current internal controls. They also identified certain misstatements, deemed to be immaterial individually and in the aggregate to the financial statements as a whole, that were passed on for adjustment by management.

Status: Ongoing.

Federal Awards Findings

Finding 2024-002

Federal Agency Name: Department of Education

Assistance Listing Number: #84.264

Program Name: Federal Direct Student Loans

Initial Fiscal Year Finding Occurred: 2024

Finding Summary: 1 of the 60 students selected for testing the reporting of student status changes were reported with the incorrect enrollment status based on NSLDS Enrollment Reporting guidance. 3 of the 60 students selected for testing the reporting of student status changes were reported to NSLDS with incorrect program begin dates based on NSLDS Enrollment Reporting guidance. 1 of the 60 students selected for testing the reporting of student status changes were reported to NSLDS with an incorrect status effective date based on NSLDS Enrollment Reporting guidance.

Status: Resolved.

Corrective Action Plan

Financial Statement Finding

Finding 2025-001

Finding Summary:

Eide Bailly LLP prepared the financial statements and required footnote disclosures for the year ended June 30, 2025. As part of audit procedures and preparation of the financial statements, they identified and proposed various audit adjustments that were not identified by current internal controls.

Responsible Individuals:

Heidi Clausen, Business Manager

Corrective Action Plan:

It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We request that our auditors, Eide Bailly LLP, prepare the financial statements and the accompanying notes to the financial statements as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed with and agree with the audit adjustments proposed during the audit.

Anticipated Completion Date: Ongoing